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CANADA

RESTRICTIVE TRADE PRACTICES COMMISSION

REPORT

Concerning the Production, Purchase and Sale
of Flue-Cured Tobacco in Ontario



DEPARTMENT OF JUSTICE
OTTAWA



EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956

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RESTRICTIVE TRADE PRACTICES COMMISSION

REPORT

CONCERNING THE PRODUCTION, PURCHASE
AND SALE OF FLUE-CURED TOBACCO
IN ONTARIO

COMBINES INVESTIGATION ACT

Ottawa
1956




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RESTRICTIVE TRADE PRACTICES COMMISSION

C. Rhodes Smith, Q. C. , M. A. , LL. B. , B. C. L.
Chairman

Guy Roberge, B. A. , LL. B.
Member

A. S. Whiteley, B. A. , M. A.
Member



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RESTRICTIVE TRADE PRACTICES COMMISSION
Ottawa

November 1, 1956.

Honourable Stuart S. Garson, Q. C.,
Minister of Justice,
Ottawa, Ontario.

Sir:

I have the honour to submit to you herewith the report of the Restrictive Trade Practices Commission dealing with the production, purchase and sale of flue-cured tobacco in Ontario.

The matter was brought before the Commission by the submission of a statement of the evidence obtained in the inquiry by the Director of Investigation and Research under the Combines Investigation Act and has been dealt with in accordance with the provisions of Sections 18 and 19 of the Act.

Evidence and argument in regard to the Statement of Evidence were heard by the Commission at Simcoe, Ontario on February 13, 14, 15 and 16, 1956. Messrs. G. D. Orr and F. N. MacLeod appeared on behalf of the Director of Investigation and Research and Messrs. J. J. Robinette, Q. C. and J. D. Pickup, Q. C. appeared on behalf of the Flue-Cured Tobacco Marketing Association of Ontario.

We wish to acknowledge the valuable services of Dr. Sol Sinclair, Chairman, Department of Agricultural Economics, University of Manitoba, who acted as economic consultant to the Commission in this inquiry, and whose studies of various aspects of the industry were of great assistance in the preparation of this report.

Yours faithfully,

(Sgd.) C. R. Smith
Chairman

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CHAPTER I

INTRODUCTION

1. Reference to the Commission

This inquiry, which relates to the operations of the Flue-Cured Tobacco Marketing Association of Ontario, was brought before the Restrictive Trade Practices Commission by the Director of Investigation and Research under the Combines Investigation Act, who submitted a Statement of Evidence pursuant to Section 18 of the Act.

At the same time that the Statement of Evidence, which was dated December 15, 1955, was submitted to the Commission it was also submitted to the Flue-Cured Tobacco Marketing Association of Ontario (the Association) concerning whose operations the following allegations were made in the Statement by the Director:

"200. The Association from 1936 until the present time has substantially controlled, within the Province of Ontario, the production, purchase and sale of unmanufactured flue-cured tobacco. Its membership included all the firms which bought such tobacco in Ontario and the vast majority of all the growers.

201. The Association has unduly restricted and lessened the production of flue-cured tobacco in Ontario and has unduly restricted and lessened competition in the production, purchase and sale of such tobacco.

202. Prospective growers of flue-cured tobacco in Ontario, except those who have purchased farms from Association members, have been admitted to the Association only at the Association's pleasure. Membership in the Association has frequently been denied prospective growers and has been denied to such growers without exception since 1951.

203. Non-member growers, by reason of the operations of the Association, are denied the opportunity of marketing their crops at as early a date or under as favourable conditions as apply to members. They have thereby been discouraged and prevented from growing and selling flue-cured tobacco and the values of their farms have been arbitrarily and unjustifiably depressed.

204. The Association has restricted opportunity and incentive for market development, particularly in respect of foreign markets.

205. By restricting and lessening production the Association has lessened opportunity for the most effective employment of men and resources.

206. The Association, in making regulations for the production, purchase and sale of flue-cured tobacco and in prescribing and administering punishments for violations has maintained an arbitrary and private system of law.

207. The Association, by reason of the effects above described, has constituted an arrangement for restraining and injuring trade and commerce contrary to the public interest."

The Flue-Cured Tobacco Marketing Association of Ontario is described in the Statement of Evidence as a corporation, without share capital, incorporated on July 8, 1936 under the laws of Ontario. The Association has its headquarters at Simcoe, Ontario, and its members are buyers or producers of flue-cured tobacco in Ontario.

2. Hearings and Witnesses

Prior to the preparation and submission of the Statement of Evidence, hearings for the taking of evidence in the inquiry were held, on application of the Director of Investigation and Research, during September, 1954 at Simcoe, Ontario; Toronto, Ontario and Montreal, Quebec. At these hearings, which were held before the Chairman of the Commission, the following witnesses were examined:

- E. D. Allen Vice-President and General Manager, Canadian Leaf Tobacco Company Limited, Chatham, Ont., and Buyer Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
- W. E. Bailey General Manager, Leamington Tobacco Sales Corporation Limited, Simcoe, Ont., and Buyer Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
- M. Beaudry Manager, Cooperative des Tabacs Laurentiens, Joliette, P. Q.

W. R. Cathers	Tobacco Producer, Port Burwell, Ont., and Grower Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
R. T. Cross	Tobacco Producer, Union, Ont., and Grower Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
F. C. Cunningham	Tobacco Producer, Windham Centre, Ont., and Chairman, Board of Directors, Flue-Cured Tobacco Marketing Association.
F. R. Gregory	Tobacco Producer, Leamington, Ont., and Member of Flue-Cured Tobacco Marketing Association. ⁽¹⁾
J. Horkay	Tobacco Producer, Union, Ont.
J. A. Leathong	Secretary-Treasurer, Flue-Cured Tobacco Marketing Association, Simcoe, Ont.
H. C. McCormick	Tobacco Producer, Union, Ont.
R. A. Parham	Vice-President, Imperial Leaf Tobacco Company Limited, Toronto, Ont., and Buyer Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
G. F. Perkin	Commissioner of Marketing and Chairman, Farm Products Marketing Board, Department of Agriculture, Province of Ontario.
J. K. Pew	Tobacco Producer, Viewlake, Ont.
S. C. Smith	Tobacco Producer, Port Stanley, Ont., and Member of Flue-Cured Tobacco Marketing Association.
D. H. Wales	Tobacco Producer, Lisle, Ont.

In accordance with Section 18(2) of the Combines Investigation Act, the Commission, on receipt of the Statement of Evidence, made an order on January 4, 1956 fixing Monday, February 13, 1956 at 10 o'clock in the forenoon in the County Courthouse, Simcoe, Ontario, as the date, time and place at which argument in

(1) Mr. Gregory had been Chairman, Board of Directors, on a number of occasions and was re-elected Chairman in 1955.

support of the Statement of Evidence could be submitted by the Director and at which the Flue-Cured Tobacco Marketing Association of Ontario, against whom allegations were made in the Statement, would be allowed full opportunity to be heard, the whole in compliance with Section 18(2) of the Act. In giving notice of the hearing the Commission informed the Association that there would be opportunity to further examine any witness who had been called during the course of the inquiry or to have called any additional witnesses or to submit additional documentary evidence.

The Commission hearing opened at Simcoe, Ontario, on February 13, 1956 and concluded on February 16, 1956. The following appearances were registered at the hearing:

G. D. Orr	For Director of Investigation
F. N. MacLeod	and Research;
J. J. Robinette, Q. C.	For Flue-Cured Tobacco
J. D. Pickup, Q. C.	Marketing Association of Ontario.

Before argument was heard by the Commission the following witnesses were examined and certain exhibits were received:

E. D. Allen	Vice-President and General Manager, Canadian Leaf Tobacco Company Limited, Chatham, Ont., and Buyer Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
F. E. Ashbaugh	Tobacco Producer, Turkey Point, Ont., and Grower Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
S. M. Clark, M. P.	Harrow, Ont., formerly Member of Burley Tobacco Marketing Association of Ontario.
J. P. Dougherty	Manager, Canadian Bank of Commerce, Simcoe, Ont.
B. G. Field	Wilson, North Carolina, U. S. A., formerly President of British Leaf Tobacco Company of Canada Limited, Chatham, Ont., and formerly Buyer Member, Board of Directors, Flue-Cured Tobacco Marketing Association.

R. I. Freeman	Tobacco Producer, Windham Centre, Ont., formerly Grower Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
T. H. Gilchrist	Manager, Royal Bank of Canada, Simcoe, Ont.
F. R. Gregory	Tobacco Producer, Leamington, Ont., and Chairman, Board of Directors, Flue-Cured Tobacco Marketing Association.
H. W. Jackson	President, Universal Leaf Tobacco Company, Richmond, Va., U.S.A., formerly President, Canadian Leaf Tobacco Company of Canada, Limited, Chatham, Ont., and formerly Buyer Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
J. A. Leathong	Secretary-Treasurer, Flue-Cured Tobacco Marketing Association, Simcoe, Ont.
Dr. N. A. MacRae	Chief, Tobacco Division, Experimental Farm Service, Department of Agriculture, Ottawa, Ont.
E. Malik	Tobacco Producer, Union, Ont.
F. J. Moore	Tobacco Producer, Newcastle, Ont.
R. A. Parham	Vice-President, Imperial Leaf Tobacco Company Limited, Toronto, Ont., and Buyer Member, Board of Directors, Flue-Cured Tobacco Marketing Association.
J. B. Picard	Tobacco Producer, Waterford, Ont.
J. F. Thomas	Tobacco Producer, Amherstburg, Ont., and Chairman, Board of Directors, Burley Tobacco Marketing Association of Ontario.
C. M. Watters	Manager, Bank of Montreal, Simcoe, Ont.

For purposes of clarity, reference in this report to evidence given at hearings for the taking of evidence will be made as follows: "Evidence, p. ...". Reference to evidence given at the hearing before the Commission will be made as follows: "Hearing, p. ...".

3. Objections to Jurisdiction of Commission

At the opening of the hearing for argument, counsel appearing for the Association submitted that the Commission had no jurisdiction to deal with the Statement of Evidence prepared by the Director of Investigation and Research because it was not in accordance with the requirements of Section 18 of the Combines Investigation Act. As the representative of the Director requested time in which to prepare a reply to the argument which had been raised without previous notice, counsel for the Association agreed to proceed with the presentation of evidence and argument on the merits without in any way waiving the objection to jurisdiction.

Further argument on the question of jurisdiction was presented by the representative of the Director and counsel for the Association at the conclusion of the taking of evidence and before argument was completed on the merits. The Commission thus has had the benefit of a full discussion of the question raised by counsel for the Association.

The ground on which it was submitted that the Commission has no jurisdiction was that Section 18 contemplates a Statement which makes an allegation against persons that they have been guilty of an offence either under the Combines Investigation Act or under Section 411 or 412 of the Criminal Code and that the Statement of Evidence prepared by the Director in this instance did not particularize an offence in the terms of either statute. It was further argued that in the Statement of Evidence allegations were made only against the Association and that if it was intended to allege an offence by way of combination it would be necessary to make allegations against two or more persons. Counsel for the Association also argued that the Statement of Evidence could not be taken as alleging a "merger, trust or monopoly" as the allegations were not phrased in the language of the statute defining an offence in those terms.

In reply the representative of the Director argued that in proceeding with the inquiry and in presenting the Statement of Evidence all steps had been fully in accordance with the requirements of the Combines Investigation Act. It was pointed out on behalf of the Director that a Statement of Evidence might be submitted in two circumstances, one when the Director is of the opinion that the evidence discloses a situation contrary to Section 32 or 34 of the

Combines Investigation Act or Section 411 or 412 of the Criminal Code, and the other when the Director is directed by the Minister to prepare a statement. It is clear that in the latter case a statement could be properly submitted which contained no allegations and it would be competent to the Commission to deal with it in accordance with Section 18. As the provisions with respect to allegations are the same in both circumstances it was contended that there was no requirement upon the Director to make allegations at all. The only requirement in the section is that the Statement of Evidence must be submitted to each person against whom an allegation is made in the Statement. The representative of the Director submitted that this was complied with when the Statement of Evidence was sent to the Association.

In regard to the argument that the Statement of Evidence did not allege an offence in statutory terms the representative of the Director submitted that the legislation did not contemplate that the Statement would be in the nature of an indictment and it was not necessary, therefore, that the situation be described in the wording of the Combines Investigation Act or the Criminal Code. It was necessary that the practices and arrangements considered by the Director to be contrary to law should be clearly and fully described so that any person against whom allegations were made would be in a position to make a full reply. He submitted that the Statement of Evidence was entirely adequate in these respects and the Association was not prejudiced in any way in making its representations.

After full consideration of the objections to jurisdiction the Commission has concluded that it has jurisdiction in the matter and that the Statement of Evidence, in the circumstances of this inquiry, was in accordance with Section 18 of the Combines Investigation Act. It may be mentioned that while counsel for the Association did not recede from the position that the Commission had no jurisdiction he invited the Commission, even if it felt jurisdiction is doubtful or that it is without jurisdiction, to express its opinion on the merits of the matter. We are, however, doing so in the conviction that the Commission has jurisdiction.

Section 18, subsection (1) of the Combines Investigation Act provides as follows:

- "18. (1) At any stage of an inquiry,
- (a) the Director may, if he is of the opinion that the evidence obtained discloses a situation contrary to section 32 or 34 of this Act, or section 411 or 412 of the Criminal Code, and
 - (b) the Director shall, if so required by the Minister, prepare a statement of the evidence obtained in the inquiry, which shall be submitted to the Commission and to each person against whom an allegation is made therein."

There is nothing in the Act which requires the Director to state that he is of the opinion that the evidence obtained discloses a situation contrary to Section 32 or 34 of the Combines Investigation Act, or Section 411 or 412 of the Criminal Code. However, where he is acting on his own authority under Section 18(1)(a) of the Combines Investigation Act, it should be apparent, from the language of the Statement of Evidence, that he is of that opinion. If this is so, and if the situation which the Director deems to be contrary to one or more of the above sections is clearly described, these facts constitute compliance with Section 18 of the Combines Investigation Act. Furthermore, under such circumstances, the Commission considers that a person named in the Statement of Evidence as a person answerable in the situation complained of will not be prejudiced, in making representations to the Commission, by the fact that the Statement of Evidence does not specifically allege against him an offence under any of the above sections of the Combines Investigation Act or the Code. The Commission believes that in this instance the Statement of Evidence clearly shows that the Director considers a situation exists which is contrary to one or more of the above sections and that it describes adequately the arrangements which in his opinion have produced that situation and the activities of the Association in connection therewith.

With respect to the allegations actually made in the Statement of Evidence and set out above, the Commission considers that paragraph 200 describes the position of the Association in terms so similar to those of Section 2(e)(ii) of the Combines Investigation Act as to amount to a declaration that it is a combine in the nature of a merger, trust or monopoly. The succeeding paragraphs, numbers 201 to 206, allege restrictive activities of various kinds, leading to the allegation in paragraph 207 that by reason thereof the Association has constituted an arrangement for restraining and injuring trade and commerce contrary to the public interest. This, in effect, amounts to an allegation that the merger, trust or monopoly has operated or is likely to operate to the detriment or against the interest of the public. In the opinion of the Commission the result is an allegation of a combine, within the meaning of Section 2 of the Combines Investigation Act.

4. Position on Merits taken on behalf of the Association

The position taken on behalf of the Association during the course of the argument with respect to the allegations made by the Director may be summarized in its principal aspects as follows:

1. The Association has not acted contrary to the public interest and in fact the activities of the Association have been of benefit not only to flue-cured tobacco producers in Ontario as a whole

but have created prosperous conditions throughout the communities in the tobacco-growing areas in Ontario.

2. Flue-cured tobacco producers who have not been members of the Association have not been injured by its operations but the Association members by reducing their own production have, in effect, subsidized non-member growers who have derived substantial monetary benefits from the programme of the Association without bearing any part of the cost.

3. The activities of the Association have made possible the growth in the production of flue-cured tobacco in Ontario which has resulted in Canada becoming almost entirely independent of imported tobaccos on which the Canadian tobacco manufacturing industry had formerly had to depend in very large measure. Without the confidence which was given to growers by the Association it is unlikely that production of flue-cured tobacco would have reached present levels because fewer producers would be prepared to assume the large financial obligations which the cultivation of tobacco entails.

4. There have been substantial difficulties in the way of building up the exports of Canadian tobacco but the Association in co-operation with governmental and other agencies has made constant efforts to sell Canadian tobacco abroad. Exports of flue-cured tobacco have increased very substantially since the early 1930's and the Association has contributed a good deal to this development.

5. The minimum average price established through the Association was agreed upon after hard bargaining between grower and buyer representatives and provided, in a sense, a guaranteed floor price. In the purchase of individual growers' crops there was active competition among buying companies as much so as under the auction system of buying used in the United States. The marketing arrangements developed by the Association were better suited to the method of tobacco farming and to geographic and climatic conditions in Ontario and were thus better for the grower the manufacturer and the consumer. It was contended that an auction system of selling tobacco in Ontario would not be as economical as the arrangements developed by the Association.

6. In both the federal and provincial fields it has been recognized that special measures are needed to secure stability in farm production and the orderly marketing of agricultural products, and dominion and provincial legislation with such objects has been passed. The same objectives have been sought by the Association by voluntary arrangement and the methods which have been employed by the Association are implicit in the legislation passed for the same purposes. If an agricultural group can achieve the same results by voluntary arrangement there is no reason why the

expense of a government marketing scheme should not be avoided.

7. The evidence from all quarters, independent and member growers, tobacco buyers, government agricultural officials and banking officials demonstrated the beneficial effects of the arrangements of the Association in creating a stable and prosperous tobacco industry and in building up prosperous communities in the tobacco-growing districts. No injury to trade or commerce was created by the operations of the Association and there was no detriment to the public interest.

CHAPTER II

THE DEVELOPMENT OF THE GROWING OF FLUE-CURED TOBACCO IN ONTARIO

1. Early Stages of Tobacco Cultivation in Canada

Records of tobacco production in Canada indicate that this product was grown in Canada from a very early period of settlement. The Census of 1870-71 records the total production in Canada at that time as 1,595,932 pounds of which 399,870 pounds were produced in Ontario and 1,195,345 pounds in Quebec. While some tobacco continued to be grown in other provinces, production in Ontario and Quebec expanded fairly rapidly and by 1910 the acreage of tobacco in the two provinces exceeded 19,000 acres and the production amounted to about 17,500,000 pounds. Quebec was still the largest producer at this time with about 12,000 acres in tobacco and a production of slightly more than 10,000,000 pounds while the acreage in Ontario totalled slightly more than 7,000 acres and the production, 7,490,000 pounds.

The total Canadian tobacco crop declined to some extent after 1910 but increased again by 1918, and, apart from some short-run declines, has continued to expand ever since.

By 1920, the acreage in Ontario in tobacco of all types had risen to 19,621 while that in Quebec totalled 17,252. In that year the production was 19,279,000 pounds in Ontario and 13,366,000 in Quebec. Tobacco acreage has continued to expand in Ontario but has tended to decline in Quebec. In 1954, Ontario harvested 173,569,000 pounds of tobacco from 120,804 acres while production in Quebec was 11,110,000 pounds from 10,863 acres. Production of tobacco in other provinces has remained slight. For many years, therefore, Ontario has been Canada's major tobacco-producing province, supplying the bulk of our domestic needs for tobacco and also providing substantial quantities for export. Since the 1930's flue-cured tobacco has been the most important type of tobacco produced, coming to form the greatest part of total production. In 1954, the flue-cured tobacco crop in Ontario amounted to about 168,000,000 pounds out of a total production in Canada of 184,800,000 pounds of tobacco of all types.

Table 1 - Tobacco, All Types: Area and Production, Canada and Ontario, by 5-year averages, 1929-1953 and annually 1954 and 1955.

	Area		Production	
	Canada acres	Ontario acres	Canada '000 lb.	Ontario '000 lb.
Average 1929-1933	46,793	38,581	43,174	35,647
Average 1934-1938	59,135	50,846	62,762	54,180
Average 1939-1943	76,122	63,946	84,942	74,117
Average 1944-1948	105,597	94,350	114,492	103,835
Average 1949-1953	104,512	95,204	138,564	129,558
1954	131,755	120,804	184,763	173,569
1955	109,909	96,833	134,840	120,981

Source: D. B. S. Reference Papers 1950, Historical Series of Tobacco Statistics; Leaf Tobacco Production and Value, 1949 to 1955. Quarterly Stocks and Consumption of Unmanufactured Tobacco, March 1956.

2. Extension of Flue-Cured Tobacco Production in Ontario

Flue-cured tobacco is the type that is generally used for the production of cigarettes. It is also known as "Virginia" or "bright Virginia". The term flue-cured is derived from the method by which heat is applied to the tobacco leaf in the curing process.

While flue-cured tobacco was grown experimentally in Ontario as early as 1900, production on a commercial basis was not attempted until about 1913, when a crop of 100 acres was produced. Prior to the introduction of flue-cured tobacco the various other types of tobacco, such as pipe and burley, were produced in Ontario as they were in Quebec. This earlier production was largely confined to southwestern Ontario in the counties of Essex and Kent, which are referred to as the "Old Belt". It was largely in that same area that the development of flue-cured production took place in the earlier years of this century. During the 1920's tobacco growing extended into what is now known as the "New Belt" which includes the counties further east from the "Old Belt" along the north shore of Lake Erie. The "New Belt" is generally regarded as the counties of Norfolk, Elgin, Oxford, Brant, Middlesex, arranged in order of importance as tobacco producers. More recently the production of flue-cured tobacco has been extended to Simcoe and Durham counties. In 1950, Kent and Essex ranked 6th and 7th, respectively, in tobacco acreage in Ontario but the acreages in these two counties

were one-third to one-half what they had been in 1930.

The opportunity for the expansion of the production of flue-cured tobacco was provided by the pronounced shift in smokers' tastes toward cigarettes which appears to have had its origin during World War I and which has since persisted. The following statistics relating to changes in smoking habits are given in the Canada Year Book 1955;

"A study of Department of National Revenue reports on tax-paid withdrawals of tobacco products reveals changes in the smoking habits of Canadians during the past three decades. In 1922, the first year for which comparable figures are available, the Canadian per capita consumption of cigarettes was 229, cigars 20, cut tobacco 1.3 lb., plug tobacco 1.1 lb. and snuff about 1.3 oz. By 1953, the annual per capita consumption of cigarettes had increased to 1,421, cigars had dropped to 15.9, cut tobacco went up to 1.8 lb. and plug declined considerably."

Increased production of flue-cured tobacco enabled Canadian manufacturers of cigarettes to rely more and more upon domestic tobacco. In the period 1930-1939, domestic raw leaf formed about two-thirds of the tobacco used in Canada in the manufacture of cigarettes and this proportion had risen to about 90 per cent at the beginning of the war. Thereafter the proportion of domestic raw leaf continued to increase and from 1943 on it has formed more than 99 per cent of the total.

Table 2 - Tobacco, Flue-Cured: Area, Production and Value of the Commercial Crop, Ontario, 1924-1955

Type and Year	Area	Yield Per Acre	Total Production	Farm Price Per Pound	Total Farm Value
	acres	lb.	lb.	cents	\$
1924	6,849	800	5,479,000	(1)	(1)
1925	7,331	855	6,268,000	33.00	2,068,400
1926	6,429	674	4,331,000	45.00	1,949,000
1927	6,550	825	6,229,800	33.90	2,111,900
1928	10,898	800	8,718,400	31.00	2,702,700
1929	15,060	600	9,036,000	29.00	2,620,400
1930	17,200	720	12,384,000	32.00	3,962,900
1931	27,345	896	24,500,000	20.50	5,022,500
1932	27,754	995	27,615,200	16.30	4,501,300
1933	30,042	897	26,936,400	19.50	5,252,600
1934	24,289	900	21,860,000	24.70	5,399,400
1935	30,905	1,138	35,183,600	24.50	8,620,000
1936	35,701	684	24,421,400	29.30	7,155,500
1937	52,452	1,042	54,655,000	27.30	14,940,500
1938	61,300	1,244	76,278,900	22.65	17,280,400
1939	63,820	1,180	75,294,400	20.30	15,284,800
1940	42,640	870	37,083,500	20.80	7,713,400
1941	48,930	1,461	71,526,700	22.80	16,308,100
1942	58,400	1,156	67,483,500	26.50	17,883,100
1943	55,700	983	54,754,700	30.20(2)	16,539,900
1944	68,800	1,200	82,595,000	30.74(2)	25,389,000
1945	72,344	982	71,056,000	34.90(2)	24,799,000
1946	85,852	1,339	114,992,000	36.67(2)	42,172,000
1947	98,146	848	83,206,000	37.34(2)	31,069,000
1948	85,200	1,151	98,072,000	42.70(2)	41,877,000
1949	86,252	1,324	114,161,000	42.25(2)	48,234,000
1950	87,330	1,193	104,179,000	44.72(2)	46,590,000
1951	106,300	1,317	140,023,000	44.37(2)	62,121,000
1952	81,303	1,567	127,435,000	41.61(2)	53,025,000
1953	90,800	1,403	127,394,000	43.77(2)	55,762,000
1954	116,990	1,436	167,988,000	43.21(2)	72,581,000
1955	91,784	1,222	112,202,000	45.48(2)	51,030,000

(1) Figures not available.

(2) Additional payments for grading and tying were made to growers as follows: 1943, 1 1/4 cents; 1944 to 1947, 1 1/2 cents; 1948 to 1955, 2 cents.

Sources: D. B. S. Reference Papers, 1950, Historical Series of Tobacco Statistics p. 13; Leaf Tobacco Production and Value, 1949 to 1955.

Table 2 presents the principal statistics relating to acreage and production of flue-cured tobacco in Ontario from 1924 to 1955. It will be noted that, except for some setbacks during the 1930's, the acreage of flue-cured tobacco expanded very rapidly in the first fifteen years after 1924. From an area of just under 7,000 acres in 1924, the acreage doubled by 1929 and doubled again by 1933 and again by 1938.

Control of flue-cured acreage in Ontario has been a principal concern of the Association and the policies which it has pursued in this connection will be reviewed later in this report. It is sufficient to note here that since 1936 the flue-cured acreage of members of the Association has been subject to regulation by the Association.

Production during the war years did not reach the level of 1938 and 1939 until 1944. Among the causes of the decline may have been the shortages of labour and supplies. During the five years, 1943 to 1947, the Association placed no restrictions on the number of acres members could put in tobacco. The trend toward greater acreage was resumed in 1944 and although there were reversals in some years, by 1954 the acreage had again doubled.

Improvement in yield per acre did not proceed as consistently as the expansion of acreage itself. From 1929 to 1934 the average yield increased from about 800 pounds to 1,000 pounds per acre. Between 1934 and 1948 the yield fluctuated from year to year but 5-year averages show little change. However, from 1949 on, almost without exception, the average yield has been substantially higher than in the preceding periods. The differences may be noted more clearly in Table 3.

Table 3 - Tobacco, Flue-Cured: Average Yield per Acre,
Ontario, by 5-year periods, 1929-1953 and annually
1954 and 1955

	<u>Number of pounds per acre</u>
1929-33	856
1934-38	1,038
1939-43	1,136
1944-48	1,096
1949-53	1,357
1954	1,436
1955	1,222

Source: D. B. S. Reference Papers, 1950, Historical Series of Tobacco Statistics; Leaf Tobacco Production and Value, 1949 to 1955.

The combination of increased acreage and yield per acre has resulted in substantially higher total production in recent years. From a total of 5,500,000 pounds in 1924 production in Ontario reached a high point of 168,000,000 pounds in 1954. However, it was not until after World War II that total production exceeded 100,000,000 pounds. Thus, Ontario has become almost the exclusive producer of flue-cured tobacco in Canada accounting for about 95 per cent of total acreage and about 97 per cent of the total production. By virtue of this rapid increase in production of flue-cured tobacco in Ontario, this province supplies almost all the domestic leaf tobacco used in the manufacture of cigarettes in Canada. As already pointed out, all but a very small portion of the leaf tobacco used in this way has been of domestic origin for more than a decade.

Table 4 - Tobacco, Flue-Cured: Area and Production, Canada and Ontario,
by 5-year averages, 1929-1953 and annually 1954 and 1955

	Area		Ontario as proportion of Canada	Production		
	Canada	Ontario		Canada	Ontario	Ontario as proportion of Canada
	acres	acres	%	'000 lb.	'000 lb.	%
Average 1929-1933	23,717	23,480	99	20,231	20,094	99
Average 1934-1938	41,681	40,929	98	43,089	42,480	99
Average 1939-1943	59,584	53,898	90	65,529	61,229	93
Average 1944-1948	87,379	82,068	94	94,071	89,984	96
Average 1949-1953	95,190	90,397	95	126,648	122,638	97
1954	122,815	116,990	95	173,159	167,988	97
1955	98,311	91,784	94	118,206	112,202	95

Sources: D. B. S. Reference Papers, 1950, Historical Series
of Tobacco Statistics: Leaf Tobacco Production and
Value, 1949 to 1955.

3. Farm Organization and Operation

The production of flue-cured tobacco is a highly specialized one. In Ontario it is not only generally found as the only crop on the farm, but it requires a great deal of skill and knowledge of production practices on the part of the producer in order to ensure the output and the quality of the leaf desirable for manufacturing purposes. The high capital investment in land, buildings and equipment as well as the large requirements for labour, fertilizer and other current operating expenditures, make it almost imperative that the farmer spend his whole time during the season on the production of this crop. To meet the large overhead and current operating expenditures the successful production of flue-cured tobacco requires a farm unit of reasonable size. The evidence indicates that the number of acres per farm of flue-cured tobacco is generally larger than for most other types of tobacco. In the case of burley tobacco, which is a supplementary enterprise on most farms, it was stated that the average allotment to members of the Burley Tobacco Marketing Association of Ontario was 1 1/2 acres.⁽¹⁾ In years when no restriction has been placed on the acreage of flue-cured tobacco grown by members of the Association the average number of acres per farm has been in the neighbourhood of 30 acres. On the other hand, the statistics for growers of flue-cured tobacco in Ontario who were not members of the Association indicate that the average number of acres per farm ranged from 12 to 26 during the period 1945 to 1955, the average was less than 20 acres in 8 of the 11 years.

Flue-cured tobacco, like other tobaccos, is very sensitive in production to changes in weather and to the composition of soils. Plentiful, well-distributed precipitation, 100 to 120 frost-free days, and well-drained soils with a large content of humus, are essential. The most satisfactory soils for this crop are those that have an open structure and texture and include the sandy and light sandy loam soils of southern Ontario. It is these soils which also have good drainage and aeration because of the nature of the sub-soil layers that serve best in the production of flue-cured tobacco. As these soils in their virgin state are not completely suitable for this crop they must be modified through the production of selected crops which will impoverish the soil to a certain degree and make it more suitable for flue-cured tobacco production. When this modification has been achieved soils can be managed from year to year by the use of appropriate fertilizers to produce quality tobacco crops.

Generally flue-cured tobacco is grown in a two-year rotation, alternated with rye. Fall rye is seeded after the tobacco

(1) Hearing, p. 333.

crop is harvested, allowed to grow during the following summer, when on maturity it is ploughed into the soil and a new crop allowed to grow that fall in order to prevent soil drifting. The following spring the field will be worked down and the tobacco planted. Rye is used because it will add the organic matter necessary and will not introduce any plant nutrients or plant diseases or other hazards to the tobacco crop which may result from the use of other crops such as legumes. The desired plant nutrients are added in the form of commercial fertilizer, when the tobacco seedlings are planted. The amount and the type of fertilizer used will vary somewhat depending upon the soil. The typical amount ranges between 800 and 1,000 pounds per acre of what is known as a 2-12-10 fertilizer. Tobacco crops are grown from seedlings started early in the spring in unheated greenhouses. These seedlings are transplanted into the field with special planting machines after the danger of spring frosts is over. During the growing season the crop has to be given special attention to ensure its proper development and to protect it from insect pests and plant diseases. The development of new varieties at the Delhi and Harrow experimental farm sub-stations has fairly well overcome the problem of plant diseases. However, spraying must be done during the growing season to protect the plants against insect pests. The special tasks necessary to ensure the best growth in the plants involve, hoeing to control weeds, topping to remove the flowering part of the plant, and suckering, i. e., removing the new growths that will appear at the juncture of the leaf and the stem after topping has taken place. Hitherto all these tasks have had to be done by hand and they involve a great deal of labour.

Harvesting the crop, which commences generally about the middle of August or somewhat later, again involves specialized types of tasks and a great deal of hand labour. Harvesting of tobacco leaves is done by the priming method. This involves removal by hand of the leaves, starting at the bottom of the plant, removing the sand leaves, and then working up in rotation towards the top of the plant removing each row of leaves and handling them separately. As the leaves are removed they are placed in a horse-drawn "boat", and then moved to the curing kiln. The stringing operation then takes place at the kiln, where tobacco leaves in groups of three are strung onto laths which are then hung in tiers in the curing kiln. Curing may take as long as one week depending upon the moisture content in the leaves, the external weather conditions and other factors. Curing is a highly specialized type of job and can make a good quality tobacco or ruin it, depending upon the efficiency with which the curer handles the product. Curing is done by the application of artificial heat, generated either by wood, coal, oil or gas. Frequently a tobacco producer will employ curers, many of whom come for the harvesting season from flue-cured tobacco districts in the United States. After the tobacco is cured it is removed from the kiln and stored in a packbarn, where the crop may stay until the buyer arrives for its sale. Since the crop in the kiln is dried to a crisp it must be steamed before it can be moved.

This is another operation which must be done by the farmer. The farmer may or may not grade his crop before the buyer comes to purchase it. Irrespective of when the job is done, preliminary grading and stripping of the leaves from the laths has to be done before it is delivered to the buyer's warehouse. In some cases the farmer may strip and pack his tobacco in bales or he may strip and tie the tobacco in hands. After the farmer sells and delivers his tobacco a long time elapses before the tobacco is used in manufactured products. Before being stored, the tobacco must be processed by the buyer. This processing involves bringing the tobacco to the correct humidity so that it will keep without spoiling and then packing it in hogsheads of about a thousand pounds each. In this form it is stored for from 18 to 30 months so that it will be properly "aged" before it is used for manufacturing purposes.

The foregoing description of the tasks and processes relating to the production of flue-cured tobacco suggests the complex nature of production of this crop. The final objective in production is to obtain a good yield of high-quality leaf; because both yield and quality are so dependent upon the factors of labour, knowledge and other resources, extraneous to the land itself, the farmer faces many risks. Because of the substantial costs involved in equipping a farm and producing a crop of flue-cured tobacco these risks have important financial aspects.

The market value of a typical fully-equipped flue-cured tobacco farm in Ontario, if owned by a member of the Association, was given at the time of the hearing as from \$60,000 to \$100,000. This would be a farm of about 100 acres of which 90 acres would be available for tobacco production, allowing about 45 acres to be used for this purpose each year.

There do not appear to be economic studies available of the current situation with respect to flue-cured tobacco farms in Ontario but the data in a study relating to the year 1949⁽¹⁾ suggest that both values and costs have risen substantially in the intervening period. In this study an example is given of a farm consisting of 150 acres of land, of which 30 acres were in tobacco, ⁽²⁾ which had an estimated

(1) W. E. Haviland, "Ontario Tobacco Farm Organization and Selected New Belt Production Problems", The Economic Annalist, Department of Agriculture, Ottawa, December, 1950, pp. 127-28.

(2) The average allotment per Association farm based on total number of farms and total basic acreage allotments would appear to be about 32 or 33 acres.

market value in 1949 of \$40,250. This was made up of \$20,190 in land, \$14,780 in buildings and \$5,280 in equipment. The operating expenses for the same year for this farm are given as follows:

Labour costs	\$6,154
Repairs to machinery, and equipment and buildings	1,175
Fertilizer costs	717
Other costs	2,133
Total	\$10,179

This amount includes depreciation on buildings and machinery of \$1,206. These figures do not include any allowance for the labour and management contributed by the farmer and his family. Information given in the inquiry as to current market values of tobacco farms and operating expenses indicates considerably higher figures than those given in Professor Haviland's study for 1949. Witnesses gave estimates of farm values at least double those of 1949. Likewise figures for operating costs given by various witnesses are much higher than those in 1949. In the following evidence of one witness the value of a 100-acre farm is put at \$85,000:

"Q. Have you have any offers for your farm since?

A. Well, real estate people have been there to list it already, but I wouldn't call that an offer.

Q. Have they suggested a value they might put on it?

A. They have spoken about eighty-five thousand dollars, that they could sell it for that much. I have never listed it yet."⁽¹⁾

Another witness supplied the following information:

"BY MR. WHITELEY:

Q. Have you any knowledge as to the value of tobacco land?

A. Well, I will answer that this way. When I first came to Norfolk county in 1940, a tobacco farm equipped at that time could be purchased for thirty-five thousand dollars to forty thousand dollars. A comparable farm today would be worth anywhere from eighty thousand dollars up to one hundred thousand dollars.

BY THE CHAIRMAN:

(1) Hearing, pp. 424-25.

Q. Is that a hundred acre farm roughly?

A. A hundred acre farm."⁽¹⁾

The rapid rise in land values has not been confined to the recent period. In another part of the study mentioned earlier Professor Haviland refers to changes in Norfolk county in the following terms:

"Norfolk County produces about 55 per cent of the New Belt flue-cured tobacco. It is in Norfolk that Canadian tobacco has aptly earned the title Green Gold. In recent years some sandy land in this county which has sold for \$10 an acre before tobacco's advent was valued at as much as \$300 an acre. The plight of Norfolk County as a whole prior to tobacco has sometimes been exaggerated, however. The more usual change in land values was a three- or four-fold increase, and some of this increase merely reflected the rise in the general price level. It is true, nevertheless, that many of the New Belt farms taken over for tobacco had previously been earning small incomes. In contrast, attractive modern homes, barns and kilns bear witness to the present prosperity of these farms."⁽²⁾

The increased capital value of land and buildings apparent in recent years stems mainly from the higher prices for land itself as well as from the higher costs of constructing the various buildings necessary for production of flue-cured tobacco. The estimates given by various witnesses indicate that the average flue-cured tobacco farm requires by way of buildings the following: six kilns valued at about \$12,000; (3) one greenhouse valued at about \$2,000; one packbarn valued at about \$3,000. The value of equipment for an average size farm for tobacco purposes ranges from about \$6,000 to \$8,000. In recent years irrigation has come into popular use on many of the tobacco farms and this has increased the investment by from \$6,000 to \$12,000 per farm. Operating costs have of course risen since 1949. With an increase in the costs of labour it is not unnatural to expect such rises in current operating costs. It is estimated that it takes about four hundred man hours of labour to produce an acre of

(1) Hearing, pp. 302-03.

(2) W. E. Haviland, "Some Economic Aspects of Tobacco Farming in Ontario", The Economic Annalist, October, 1950, p. 109.

(3) It was generally indicated that one kiln is necessary for each 5 or 6 acres of tobacco.

tobacco in Canada. (1) Costs of other factors have also risen since 1949. The evidence indicates the average costs of production per acre of tobacco, including the living costs of the farmer and his family, are estimated to range from \$550 to \$600 an acre. One bank manager gave the following information with respect to the size of loans to individual farmers:

"A. I would say that my loans run anywhere from four thousand to fifty thousand dollars. But I would say an average figure would be twelve thousand dollars or thirteen thousand dollars per farm.

Q. How much would that work out to per acre?

A. There is a wide difference of opinion there. I had in mind a figure of \$450.

Q. Per acre?

A. Per acre. That, of course, doesn't refer only to operating costs; it includes the living of the farmer and his family and other incidentals." (2)

The foregoing description of the operating and financial aspects of the flue-cured tobacco farm indicates their highly specialized and complex nature. It also points to the large capital investment and high operating costs that the farmer has to meet in the operation of such a farm. The risks involved in the production and marketing are great unless the farmer can insure himself against fluctuations of output and price. On the production side, he has taken advantage of all the latest technological developments and various insurance schemes.

On the marketing side, the great majority of flue-cured tobacco producers in Ontario have been members of the Association through which efforts have been made to stabilize the price of the crop (see Table 2).

(1) W. E. Haviland, "The Use and Efficiency of African Labour in Tobacco Farming in Southern Rhodesia", The Canadian Journal of Economics and Political Science, February, 1954, footnote 4, p. 103.

(2) Hearing, pp. 316-17.

CHAPTER III

THE RAW LEAF MARKET IN ONTARIO FOR FLUE-CURED TOBACCO

1. The Organization of the Raw Leaf Market

The market for flue-cured tobacco in Ontario, as is the case with a number of other agricultural products, is characterized by the presence of a large number of individual producers on the one side and a small number of buyers on the other. In Ontario, the buyers' side of the market has reflected the structure of the cigarette manufacturing industry in Canada and, to a degree, in the United Kingdom as well. In Canada, Imperial Tobacco Company of Canada, Limited has long occupied a predominant position in the manufacture of tobacco products, including cigarettes. Its nearest rival, although at a considerable distance in terms of size, has been W. C. Macdonald, Inc. Trade reports indicate that in the United Kingdom the position held by Imperial Tobacco Co. of Great Britain and Ireland and affiliated companies is similarly dominant.

In recent years there have been seven buyers of flue-cured tobacco in Ontario and in the five years preceding the inquiry about 98 per cent of the crop has been purchased by five companies, namely, Imperial Leaf Tobacco Company of Canada Limited, British Leaf Tobacco Company of Canada, Limited, Canadian Leaf Tobacco Company, Limited, Hodge Tobacco Company of Canada Limited and Leamington Tobacco Sales Corporation, Limited. Canadian Leaf Tobacco Company, Limited is a subsidiary of Universal Leaf Tobacco Company of the United States which conducts tobacco buying operations in several countries. The affiliations of the other companies are described as follows in the Statement of Evidence:

"Imperial Leaf Tobacco Company of Canada Limited is a subsidiary of and acts as the leaf buying branch of Imperial Tobacco Company of Canada, Limited (Evidence p. 410). The Annual Statement of Imperial Tobacco as published in the Survey of Industrials indicates that B. Houde & Grothe Ltd. and Tuckett are controlled by Imperial Tobacco; British-American Tobacco Co., Ltd. London, England, is reported to hold substantial interest in Imperial Tobacco Company of Canada, Limited, and Imperial Tobacco Co. (of Great Britain and Ireland) Limited is reported to hold large interests in

British-American Tobacco Co., Ltd. (Financial Post, 1955 Survey of Industrials, p. 329, and The Stock Exchange Official Year-Book, 1955, Vol. II, p. 2442);

W. C. Macdonald Incorporated owns 51 per cent of the stock in Hodge Tobacco Company of Canada Limited;

Rock City Tobacco Company (1936) Limited owns the voting stock in Leamington Tobacco Sales Corporation Limited, and majority control of Rock City is held by Carreras Limited, a United Kingdom manufacturer of tobacco products;

British Leaf Tobacco Company of Canada, Limited is a wholly owned subsidiary of the Imperial Tobacco Co. (of Great Britain and Ireland) Limited.

None of the leaf buyers who have manufacturing affiliates confine their sales exclusively to such affiliates although the sales of British Leaf in the export market and those of Hodge, Imperial Leaf and Leamington Tobacco in the domestic market have been wholly or substantially to their respective manufacturing affiliates. Conversely, although the domestic users of flue-cured leaf with whom leaf buyers are affiliated secure their leaf supplies in large part through such buyers, the latter have not been their exclusive suppliers."

The other two buyers, whose purchases of flue-cured tobacco are relatively small, are Consolidated Leaf Tobacco Company, Limited and Max Borkowitz.

The following excerpts from the Statement of Evidence give a general description of the manner in which the buying operations of the five-cured tobacco buyers are conducted:

"21. The tobacco buyers employ staffs of fieldmen who act both as inspectors of tobacco and buying agents. During the growing season these agents inspect tobacco in the field and, at harvest time, they may visit the farms as often as twice a week to inspect the tobacco as it is cured. A final check may be made when the whole crop is in the barn. Agents of each principal buyer usually inspect close to 100 per cent of the flue-cured tobacco in the Province. Notes are kept regarding individual crops, and interim reports are made to the central buying office of the firm. Final reports are made when all curing is completed, and at this time the buyer will have a close picture of the entire crop, both as to quality and quantity. Buying agents are instructed as to the types of tobacco required by the buying firm, and as to the approximate price to be paid.

22. The buying season opens some time after harvesting and curing are completed, usually about the beginning of November. . . . At that time the buying agents, who as seen above, have information both as to the needs of their respective companies and the quality of particular crops, call on growers who have tobacco of the types desired by them and make offers for the crops. If agreement as to price is reached, a contract is signed and the buyer usually stipulates the manner in which the tobacco is to be packed for delivery. The instructions include grading, or sorting of the tobacco according to type of leaf. For grading and subsequent operations in preparation for market the tobacco is removed to the 'steam room' usually in the barn, where, before handling, it is steamed until it is soft enough to avoid breakage of the leaf. The graded tobacco is further prepared for delivery by tying it in 'hands', or by packing it in bales. A 'hand' is a group of 20 to 25 leaves with one leaf wrapped around. A bale contains 60 to 80 pounds of tobacco; within the bale the leaves are loose, so that packing in bales entails considerably less labour than tying in hands. Buyers who stipulate that the tobacco be tied usually pay growers one cent a pound for this operation. While the tobacco is being prepared for delivery, it is usually inspected by the buyer's representative from time to time to ensure that grading instructions are being followed.

23. The tobacco is delivered to the buyer's plant on dates specified by him. The buyer may elect to receive the tobacco in several deliveries, so that the 'sand leaves' or lower leaves of the tobacco plant will be brought in first, and other types of leaf at later dates. Since leaves of a roughly similar type are harvested together by the priming method and therefore cured at the same time, it is usually possible for the buyer to specify that the product of one or more kilns be delivered as one shipment, more or less consistent in type. Payment is made on delivery of the tobacco.

24. Some growers may begin stripping and grading before the tobacco is sold. Others prefer to wait until the grading instructions are given, since they find that some differences exist in the grading instructions of the various firms. Again, some may tie tobacco in hands before sale; since they will be paid for tying only if the buyer stipulates that the tobacco will be tied, however, they must risk the loss of reimbursement for the extra labour unless they await the buyer's instructions.

25. Flue-cured tobacco in the hands of the grower is a perishable crop. Unless it is processed, it is susceptible either to total spoilage, or at best, to loss of colour and consequent decrease in value. Consequently, it could not, even if it were financially possible, be safely held by the farmer for an

extended period. The manager of a large buying organization, when discussing the processing operations of his company, testified as follows:

'Q. So that there is a closing date in connection with your processing; you do not process all year?

A. You cannot. The tobacco would spoil. It is a perishable crop. You cannot leave it in the form of hands too long or it goes mouldy.'

(Evidence, p. 434)

26. For processing, tobacco must go to one of the buying companies' plants. When the tobacco has been redried and the moisture content brought to the proper level, it is stored in hogsheads, where it may be kept as long as three years without deterioration. One buyer of tobacco stated in evidence that he regarded eighteen months as the minimum period for which flue-cured tobacco should be matured before use (Evidence, p. 432). Consequently, a manufacturer of cigarettes who relies on his own supply finds it desirable to carry a stock considerably above his annual requirements. The witness referred to above stated that, at the beginning of the calendar year 1954, his company had in stock thirty months' supply of tobacco, including tobacco purchased out of the past year's crop.

. . .

28. Export markets have also absorbed significant quantities of Canadian flue-cured tobacco since about 1931. While the proportion of the total crop exported has varied from year to year, the trend of quantity exported has been generally upward. In the years 1949 to 1953, inclusive, export shipments accounted for about one-quarter of the total disappearance of Canadian stocks of redried flue-cured tobacco, and averaged slightly more than 25 million pounds annually. The United Kingdom has been the principal export market, while the British West Indies, Australia and certain Western European countries have imported varying quantities of Canadian flue-cured tobacco in recent years

29. . . .

The market open to tobacco growers is therefore a composite of (a) estimated future requirements, adjusted for inventory position, of manufacturers of tobacco products who are represented through affiliated buying companies in the leaf markets, (b) firm orders placed with independent leaf buyers before the opening of the marketing season and (c) buyers'

estimates of further sales opportunities, which estimates, as related to the domestic market, would be conditioned by rate of use and the general inventory position. For dealings in the export markets, exchange controls are important factors in addition to the usual considerations.

29A. Over the past five crop years Imperial Leaf has been the largest buyer in Ontario, accounting for about 38 per cent of all purchases of flue-cured tobacco from Ontario growers. British Leaf, Canadian Leaf, Hodge and Leamington Tobacco each accounted for about fifteen per cent of Ontario purchases during that period, while Consolidated's flue-cured tobacco operations have been on a relatively small scale. British Leaf and Consolidated sell principally in the export market, and substantial export sales have been made by Canadian Leaf, Imperial Leaf, and Leamington Tobacco."

2. Marketing Arrangements Preceding the Formation of the Association

As will be seen from Table 2, given earlier in this report, farm prices of flue-cured tobacco in Ontario in the years from 1925 to 1930 were comparatively stable. Except in 1926, when the average price was 45 cents per pound, prices ranged from 29 to 34 cents. Between 1924 and 1927, acreage of flue-cured tobacco also remained relatively stable at approximately 7 thousand acres, but there was a large increase in 1928, bringing the total acreage to almost 11 thousand acres, and a further increase of 4 thousand acres in 1929. This was followed in 1931 by a much larger increase of 10 thousand acres, bringing the total acreage in that year to more than 27 thousand acres. Production, it will also be seen from the same table, increased by one-third in 1930 compared with 1929 and in 1931, production of 24,500,000 pounds was practically double the crop in the preceding year. The crop in 1932 was still larger as over 27,600,000 pounds were produced.

These large increases in the output of flue-cured tobacco came at a time when Canadian manufacturers of cigarettes had not changed their blends to incorporate as large proportions of domestic tobacco as they did subsequently. The increases also occurred during the most severe period of the general depression and at a time when prices in United States markets for raw leaf tobacco had suffered extreme declines.

From an average farm price of 32.0 cents per pound in 1930 for flue-cured tobacco in Ontario, the price dropped to 20.5 cents in 1931 and to 16.3 cents in 1932. These drastic price declines, the severity of which was enhanced by the difficulties experienced by

growers in finding buyers for their crops even at the prevailing low prices, caused growers to seek through co-operative action means to improve their conditions. The Statement of Evidence contains the following reference to developments at this time:

"32. By 1933 an organization movement among Ontario growers of flue-cured tobacco was evident. One of the Associations to be organized was the Ontario Flue-Cured Tobacco Growers' Association, with its marketing subsidiary, the Ontario Tobacco Sales Co-Operative Limited. Another was the Southern Ontario Tobacco Growers' Co-Operative Association which appears to have been known also as the Tillsonburg Co-Operative. These organizations worked together in attempts to improve market conditions and in making representations regarding remedial possibilities to government bodies. One of the services offered tobacco growers was grading of crops before sale. Another feature was an arrangement whereby the growers' tobacco could be processed and held by the growers' organization and an interim advance made to the grower. . ."

The handling of unsold tobacco from the 1933 crop was described in the evidence of Mr. Archibald Leitch, then Vice-President of the Ontario Flue-Cured Tobacco Growers' Association, when he appeared in the Price Spreads Inquiry in April, 1934, as follows:

". . . There is a quantity estimated somewhere between eight and nine million pounds, dry weight, packed in hogsheads, which is graded to suit the export market. That means it will suit the domestic manufacturers too, although it is graded a little more finely than is necessary for domestic purposes. The fact that it is packed in export condition is not necessarily any detriment to selling it locally. This tobacco, roughly 3,500,000 pounds, is owned by the two growers' associations operating in that district, and the tobacco has to be packed under the control of the joint board set up to control all matters relating to the grading and sale of this tobacco; and on that tobacco certain advances have been made by the Canadian Bank of Commerce. They are guaranteed against eventual loss by the government of Ontario. The advances made by the present government are something below 15 cents a pound average.

MR. YOUNG:

On all grades?

THE WITNESS:

Average. That was the average advance made to date. Of

that 15 cents sufficient was paid over to the packing companies who packed tobacco to pay their packing charges in full; the balance was advanced to the grower."⁽¹⁾

Mr. Leitch also informed the Special Committee on Price Spreads in 1934 that as a temporary measure efforts were being made through voluntary co-operative action between the growers and buyers to reduce acreage by 25 per cent. He said:

" . . . It is just for one year. It is not a permanent thing. It is not designed to be permanent, because none of us believe there should be any arbitrary barriers put against the normal and proper expansion in business. But this is to meet a temporary condition."⁽²⁾

Table 2 shows that acreage of flue-cured tobacco in Ontario fell from 30,042 acres in 1933 to 24,289 acres in 1934. The average price between the same two years advanced from 19.5 cents to 24.7 cents.

The improvement in price for the 1934 crop was related to marketing arrangements between growers and buyers which had apparently been initiated as a by-product of the hearings of the Special Committee on Price Spreads. By June, 1934 an agreement had been worked out between the growers and seven principal buyers providing for a price for the 1934 crop and a basis of determining prices for the two succeeding years. Provision was also made for a system of appraising the quality of individual tobacco crops and determining the relative prices for the different qualities.

Before steps were taken to implement these arrangements the Natural Products Marketing Act enacted by the Parliament of Canada in 1934 was proclaimed and a scheme to regulate the marketing of flue-cured tobacco produced in Ontario was set up under this legislation in October, 1934. The following excerpts from the Statement of Evidence indicate the nature of the statutory provisions and the type of arrangement set up with respect to flue-cured tobacco:

"36. The Natural Products Marketing Act provided for the establishing of the Dominion Marketing Board which the Act empowered to exercise certain controls over the marketing of natural products. Powers given the Board included, in part, the following:

-
- (1) Proceedings and Evidence, Special Committee on Price Spreads and Mass Buying, pp. 1230-1.
 - (2) Proceedings and Evidence, p. 1238.

1. To regulate the time and place of marketing for a regulated product, to designate the agency through which it should be marketed, to determine the manner of distribution and the quantity, quality, grade or class to be marketed by any person at any time;
2. To conduct a pool for the equalization of returns received from the sale of the regulated product;
3. To assist by grant or loan the construction or operation of facilities for processing or storing a regulated product; and
4. To require those engaged in the production or marketing of a regulated product to register with or obtain licenses from the Board.

Arrangements for the marketing control of a product or group of products constituted a marketing 'scheme', and for purposes of any scheme, powers of the Board could be delegated to a 'local board' established by the scheme. While the Act did not outline the composition of a 'local board', it appears to have been expected that its membership would be drawn wholly or in predominant part from the regulated group. When the Act was before Parliament, the then Minister of Agriculture stated:

' . . . In a general way I would say the answer would be this, that when the producers submit their scheme they have to state in that scheme how they wish the board to be appointed. It might be an election by the producers themselves. It might be that the board they would like to have set up would consist of a majority of producers, but also a certain number of people in the trade and, in connection with apples, shippers, also, they may ask for representation from a consumer body, or by one member of the government. But it depends entirely upon the plan they have evolved and wish to put into effect.'

(Official Reports of Debates,
House of Commons) (24-25
George V, 1934, p. 3095)

37. The Scheme to Regulate the Marketing of Flue-Cured Tobacco produced in Ontario was made effective in October, 1934.* In the scheme that had been proposed by the growers, several amendments were made, the principal one being that

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The Canada Gazette, Extra, October 26, 1934.

the proposal for regulation of production as distinct from control of marketing was eliminated. The scheme was defined as follows:

'4. (1) The scheme is to bring about and maintain the orderly marketing of tobacco by means of a Local Board which shall inspect and appraise each crop of tobacco and, for the purposes of such appraisal, shall each season adopt an estimated average price of the total tobacco produced, agreed on or arrived at by representatives of the growers and buyers, and it shall be a condition of the marketing of that part of the tobacco used for domestic purposes that every buyer shall in respect of the sum total of his purchases each year pay the sum total of the appraised values, or pay to the Local Board the difference between the sum total of his purchases and the sum total of the appraised values for distribution amongst the growers who sold to him, the distribution being made in proportion to the value of the tobacco sold by each grower; and every buyer shall take out a licence conditioned upon his carrying on business according to the method described in the scheme and shall enter into contract of purchase in the form to be approved by the Local Board; and it shall be a further condition of the marketing of tobacco that to determine the estimated seasonal average price of tobacco a committee shall be constituted by the Local Board, in which growers and buyers shall have equal representation and a decision of which shall be reached either by unanimous act or by reference to a referee chosen by mutual consent or appointed by the Dominion Board.

(2) In the administration of this scheme, the Local Board shall not discriminate against any marketing agency which complies fully with the orders, rules and regulations of the Local Board or against any tobacco manufacturer in Canada or elsewhere.'

(The Canada Gazette, Extra,
October 26, 1934)

38. The Local Board under the scheme was to consist of fourteen members, nine of which were to be appointed by producers and five by manufacturers and processors. The Local Board's powers included, inter alia: regulation of the time and place of marketing; determination of the manner of distribution, and the quantity, quality, grade or class of tobacco to be marketed; authority to withhold tobacco from the market or place it on the market as they saw fit; and the power to require producers to register with the Local Board and to

obtain licenses from the Local Board.* Producers' licenses were to be conditional upon the licensee carrying on business in accordance with the scheme.

39. In August, 1935, the scheme was amended to define more exactly the manner in which the average price was to be computed.** Crop appraisal was based on a system of grades which had been adopted by the Local Board. Each grade was to be given an 'arbitrary' value, based on an average price of twenty-seven cents per pound for the Ontario flue-cured tobacco crops of 1931, 1932 and 1933. The Market Appraisal Committee could alter the base price for a given year, according as they believed that a higher or lower price level was called for, but not the ratio of grade values, and if the base price for the year were raised or lowered, each grade value would be raised or lowered proportionately. The Local Board had all crops inspected so that the total number of pounds in each grade could be estimated. Each grower's crop was given an 'appraised value,' on the basis of the arbitrary grade values for the year. Buyers were not obliged to pay the appraised value for individual crops, but if a buyer ended up by paying less than the total appraised values of all crops he had purchased, he was obliged to pay the difference to the Local Board for distribution among all the growers from whom he had bought. In actual practice, the scheme provided essentially for buyers and growers to determine minimum average prices by collective bargaining, after which determination, buyers and growers dealt with each other directly and not through an agency.

40. Regarding control of production under the Scheme, Mr. Leitch stated in evidence before the Royal Commission on Price Spreads in January, 1935:

'BY THE CHAIRMAN:

Q. Professor Leitch, what control feature is there as to production?

A. It is purely voluntary, just like we had last year.

Q. Will there not be the tendency of more to go into production, and the tendency to increase production in view of the improved marketing facilities?

* The Canada Gazette, Extra, October 26, 1934, p. 3

** The Canada Gazette, August 15, 1935.

A. We have at least the promise of some control over that through the Marketing Board by the growers' control over marketing; that is, every pound of tobacco comes under the board for the regulation of its sale.

Q. Yes?

A. We have no control, of course, over production as such; we cannot stop a man from growing.

BY MR. YOUNG:

Q. What is to stop the Ontario farmer from doubling production?

A. The only thing is the provision for the regulation of the sale of his product.

Q. He has got to charge the same price as they do.

MR. SOMMERVILLE:

No, that is not what he said.

BY MR. ILSLEY:

Q. It is more that you can pass regulations only permitting a man to sell three-quarters of what he raises or half of what he raises?

A. The only thing is that we have to regulate everybody alike.'

(Proceedings and Evidence
1934-35) (Vol. VII pp. 4225-6)

When the Act was under consideration by Parliament, the then Minister of Agriculture stated:

'In the bill no power is given to the local or to the dominion board to control or restrict production.'

(Official Reports of Debates,
House of Commons, 24-25
George V, 1934, p. 2890)

41. In June, 1936, the Natural Products Marketing Act was held by the Supreme Court of Canada to be ultra vires of the Parliament of Canada, ([1936] S.C.R. 398) a decision which

was upheld by the Judicial Committee of the Privy Council in January, 1937 ([1937] A. C. 377). Immediately after the opinion of the Supreme Court was delivered, the Flue Cured Tobacco Marketing Association of Ontario was formed. This organization was incorporated under the Ontario Companies Act, receiving its Charter on July 8, 1936, and was designed to continue the arrangements made with respect to flue-cured tobacco under the Natural Products Marketing Act with certain modifications."

After the Natural Products Marketing Act was declared ultra vires, the province of Ontario and a number of other provinces enacted provincial agricultural marketing legislation to permit marketing arrangements of the type contemplated by the federal enactment. The Farm Products Control Act came into force in Ontario in March, 1937 and amending legislation has been passed on a number of occasions subsequently. Although the marketing of a number of agricultural products is now regulated under the Ontario Act, the control of flue-cured tobacco marketing has been continued apart from the legislation. In 1951, a scheme to place the marketing of flue-cured tobacco in Ontario under the Farm Products Marketing Act, as it is now called, was proposed but as it was endorsed only by a small part of the growers voting, the majority being opposed, the matter was not carried further.

CHAPTER IV

ORGANIZATION OF THE FLUE-CURED TOBACCO MARKETING ASSOCIATION OF ONTARIO

1. Structure of the Association

In setting up the Association in 1936 to carry on the marketing arrangements which could no longer be sustained under federal legislation, the general procedure appears to have been to adopt all the provisions under the previous scheme and in addition, to make provision for the control of production. This is indicated in the preamble to the by-laws of the Association which reads as follows:

"The objects of the Association shall include the regulation of the quantity of tobacco produced and/or marketed by producer members of the Association at prices calculated to give producer members of the Association a fair profit on the sale of their crops and to enable Buyer Members to purchase their requirements at a reasonable price."⁽¹⁾

The purposes and objects of the Association are defined in its charter as follows:

- "(a) To improve the quality of flue-cured tobacco produced in the Province of Ontario;
- (b) To collaborate with other Associations have [having] the same or similar powers;
- (c) To inspect crops of tobacco and to appraise the values thereof;
- (d) To encourage the orderly production and marketing of such tobacco; and
- (e) To do all things incidental or conducive to the attainment of the above objects or any of them."⁽²⁾

(1) Exhibit S. 1(a), Serial 7.

(2) Exhibit S. 1(a), Serial 3.

The management of the affairs of the Association is carried out by a Board of Directors (hereinafter referred to as the Board) which originally consisted of 23 members. Of these 14 represented growers elected by various area organizations of growers, 7 represented the 7 tobacco buyers, 1 extra elected by districts 6 to 12 for the growers, and 1 to be elected by the directors themselves. (1) The constitution of the Board has since been changed, and currently the Board consists of 14 members, of which 7 are elected by the growers and the other 7 represent the 7 buyers of tobacco. (2) Officers of the Association are the Chairman, Vice-Chairman and Secretary who are named by the Directors. For some years the Secretary has been a salaried employee of the Association. Other salaried employees include an inspector, who is in charge of field work, and a small office staff in Simcoe, Ont.

To give effect to the objectives of the Association various series of by-laws and orders have been adopted and modified over the years. The following excerpts from the Statement of Evidence refer to such by-laws:

"100. By-laws of the Association may be made, amended or repealed by the Directors, subject to confirmation by a majority of the votes cast by each class of member at a general meeting of members. The By-laws place in the hands of the Board of Directors many discretionary powers, including the following:

1. 'BY-LAW NO. 4

The directors may, in their discretion from time to time, admit to producer membership in the Association, such other persons, firms, or corporations engaged or about to engage in the production of tobacco in Ontario as they may deem advisable, having regard to the due rotation of crops and to the estimated demand for tobacco in the particular year in which applications for membership from such persons are filed with the Association.

Passed July 15, 1936

Confirmed July 15, 1936. '

(Exhibit S.1(a), Serial 11)

2. 'BY-LAW NO. 6

The directors may, in their discretion, from

(1) By-law 23.

(2) Exhibit S. 6 (2) By-law 23 and 23a as amended.

time to time, admit to buyer membership in the Association any other persons, firms or corporations engaged or about to engage in the manufacture, buying or processing of tobacco.

Passed July 15, 1936
Confirmed July 15, 1936
Amended June 22, 1937
Confirmed July 12, 1937. '

(Exhibit S. 1(a), serial 13)

3.

'BY-LAW NO. 8

The directors may suspend or cancel the membership of any member who fails to comply with any by-law or regulation of the Association or order of the Board of Directors or who fails in any year to apply for a permit (if required) to buy or sell tobacco within such period as may be prescribed by the Board.

Passed July 15, 1936
Confirmed July 15, 1936
Amended June 22, 1937
Confirmed July 12, 1937. '

(Exhibit S. 1(a), serial 15)

4.

'BY-LAW NO. 49 (formerly 45)

Without limiting the generality of the foregoing, the Board of Directors may exercise the following powers:

- (a) To enter into such arrangements, acquire such property and do such things as may in its opinion be necessary or advisable in the interests of the Association;
- (b) To impose charges and tolls upon all producer members of the Association not exceeding two and seven-tenths cents (2-7/10¢) on each pound of tobacco sold in each year by such members;
- (c) To regulate the time and place at which and designate the agencies through which tobacco of producer members of the Association shall be marketed;
- (d) To determine the manner of distribution, the quantity, quality, grade or class of tobacco that shall be marketed by any member at any time, and prohibit the

marketing by any member of any tobacco of any grade, quality or class, or junk, culls, rejects or scraps; provided that, there will be no restrictions on the sale or disposal of any class of tobacco which accumulates normally from packing or processing operations of tobacco purchased from producer members, to determine the quantity of tobacco which shall be grown by each producer member in each year;

(e) To conduct a survey and inspection service of the tobacco of producer members and to determine and make public the date on which the market for tobacco shall open in each year;

(f) To exempt from any order persons exporting or distributing gifts, samples or experimental packages of tobacco;

(g) To withhold from marketing any quantity of tobacco of producer members at any time with power to compensate any producer member for loss sustained through such withholding; provided that no compensation shall be paid in respect of tobacco which may be withheld from marketing because the quality or class of such tobacco is deemed by the Board to be unsuitable for sale at any particular time or because of the restrictions imposed by the Government or other competent authority;

(h) For the purpose solely of ascertaining whether the by-laws and regulations of the Association and Orders of the Board have been or are being complied with, to require from time to time all members of the Association to make returns to the Association in such form and containing such information as the Board of Directors may from time to time determine, and to file with the Association copies of invoices, contracts, bills of lading, accounts and other documents as the Board may from time to time require with respect to tobacco produced or marketed by them and to supply the Association with a Statutory Declaration with respect to the accuracy of all such information and documents;

(i) To require every member to maintain adequate records of all his transactions in tobacco;

(j) For the purpose solely of ascertaining whether the by-laws and regulations of the Association and orders of the Board have been or are being complied with to inspect or cause to be inspected the books, accounts, records, and documents of any member relating to tobacco;

(k) To determine that no member shall buy or sell tobacco except pursuant to a permit issued by the Board;

(l) To determine that no member shall buy or sell tobacco except under a contract in a form approved by the Board;

(m) To determine that no producer member shall sell tobacco directly or indirectly to any person other than a member of the Association, that no Buyer Member shall buy tobacco directly or indirectly from any person other than a member of the Association or shall knowingly sell tobacco directly or indirectly to any person who has purchased tobacco produced by a person not a member of the Association and that no member shall store, process, pack or in any manner deal in tobacco produced by or for a person not a member of the Association;*

(n) To require Buyer Members to pay for all tobacco purchased by them prices which in the aggregate shall be not less than the aggregate appraised value of all tobacco of each year's crop purchased by them respectively, with power to exempt from any such requirement any member in respect of tobacco exported from Canada;

(o) To require any Buyer Member who has paid for his purchases of tobacco less than the aggregate appraised value thereof, to pay such deficiency on demand to the Association for account of the producer members from whom such buyer made his purchases for distribution among them in proportion to the value of the tobacco sold to such Buyer Member by each producer member, and, upon failure of such Buyer Member to pay such deficiency, to institute in the name of the Association, on behalf of such producer members, such proceedings against such Buyer Member for the recovery thereof as the Board may deem advisable.

(p) To determine with respect to a Buyer Member acquiring tobacco in the production of which he was either directly or indirectly interested, that the sale of tobacco by such Buyer Member shall be subject to such orders as the Board may determine, and that such Buyer Member shall pay any further deficiency in relation to the appraised value of tobacco sold by him as the Board shall deem equitable, and such deficiency shall be allocated in

* emphasis added [in the Statement of Evidence]

such manner, and/or paid to the Association to form part of its general funds, as the Board, in its discretion, shall determine;

(q) To adopt from time to time for the purpose of exercising any or all of its powers, orders not inconsistent with the by-laws or regulations of the Association, which shall be binding on all members.

Passed July 15, 1936
Confirmed July 15, 1936
Amended July 29, 1936
Confirmed July 29, 1936
Amended June 22, 1937
Confirmed July 12, 1937
Renumbered July 9, 1951.¹

(Exhibit S.1(a), serials 61-63)

101. The establishment of a Market Appraisal Committee from among its members is a mandatory function of the Board of Directors. It is the function of this Committee to fix each year a minimum average price per pound to be paid by buyer members for producer members' tobacco.

102. It will be noted that By-Law 49, particularly in paragraph (o), embodies the same principle for determining prices as between buyer and producer members as was embodied in the scheme set up in 1934 under the Natural Products Marketing Act."

2. Membership of the Association

When the Association was organized in 1936 all firms engaged in buying raw flue-cured tobacco who had been licensed under the scheme set up under the Natural Products Marketing Act of 1934, became members. According to the Statement of Evidence only one additional buying firm has commenced business in Ontario and it became a member of the Association. In general, therefore, it appears that at the time of the inquiry and throughout the life of the Association all buyers of raw flue-cured tobacco in Ontario have been members of the Association.

On the establishment of the Association producer membership was open to growers who had participated in certain of the earlier marketing arrangements, including the scheme under the Natural Products Marketing Act so that in effect, membership was open to practically all farmers in Ontario who were growing flue-cured

tobacco in 1936. It will be noted that under the provisions of By-law 4, quoted earlier in this chapter, new producer members could be admitted at the discretion of the Board of Directors. After 1936, producer membership in the Association does not appear to have been available on a continuing basis but new members have been admitted from time to time on decision of the Board of Directors. For example, owners of farms in Ontario equipped to grow tobacco were declared, by resolution of the Board of Directors on December 20, 1950 eligible for membership. But from that time until late in 1955, when new members were again invited, membership was not open to flue-cured tobacco producers in Ontario except in the case where the producer acquired a farm from a person already holding membership in the Association in respect of that farm.

On the formation of the Association in 1936, producer members were allotted a "basic acreage" for each farm which was stated by one witness to have been the acreage of flue-cured tobacco grown in 1934. Subsequently allotments were made to new members, and for a time the basis used was 45 per cent of the tobacco land on the farm. This made allowance for the rotation of the tobacco crop and the use of the remaining portion for buildings, etc. When new members were admitted in 1956, the acreage allotment was based on 6 acres per kiln so that a producer with a farm equipped with 6 kilns would have a basic acreage of 36 acres and no more, regardless of the size of the farm.⁽¹⁾ The basic acreage of a farm is the maximum acreage on which tobacco is permitted to be grown in any year, except when the acreage allotment is declared "open". During one period the Association recognized the sale of acreage "rights" by a member separately from the land but in recent years the transfer of acreage allotments has been accepted by the Association only when the farm is sold. If the farm of a member is divided the proportion of the acreage allotment represented by each part must be transferred with it.⁽²⁾

The following table gives the number of farms registered with the Association by members (M. A. farms) and the number of farms of independent producers of flue-cured tobacco ("freelance" farms), together with the acreage in each year for which such figures were submitted.

(1) Hearing, pp. 212-14

(2) Hearing, pp. 369-70

Table 5 - Number and Acreage of Association Farms and Independent Farms, Ontario, 1936-1955

Year	M. A. Farms			Ind. ("Freelance") Farms		
	No.	Acres Produced per Farm	Total Acreage	No.	Acres Produced per Farm	Total Acreage
1936	1,529	Not available			Not available	
1937	2,074	23.76	49,278		"	
1938	2,534	22.46	56,914		"	
1939	2,575	22.10	56,907		"	
1940	2,405	16.01	38,504		"	
1941	2,247	18.60	41,794	329	"	
1942	2,181	23.49	51,232	417	"	
1943	2,237	22.67	50,713	196	"	
1944	2,377	26.00	61,802	330	"	
1945	2,627	25.14	66,043	272	23.13	6,291
1946	2,833	28.06	79,494	274	17.71	4,852
1947	3,123	30.70	95,876	126	16.83	2,120
1948	3,447	24.57	84,693	38	16.34	621
1949	3,566	23.89	85,192	56	16.84	943
1950	3,557	24.15	85,901	76	18.86	1,433
1951	3,556	28.77	102,306	155	25.59	3,966
1952	3,596	21.87	78,644	215	12.36	2,657
1953	3,638	23.56	85,711	202	15.50	3,131
1954	3,571	30.99	110,665	304	18.92	5,752
1955	3,564	22.81	81,295	523	20.36	10,648

Source: Exhibit H-4

With reference to the acreage of independent farms shown in Table 5 for the year 1955, it may be noted that during the Commission hearings at Simcoe, Ontario, on February 15, 1956 the Secretary of the Association stated that as of that date 88.77 per cent of the acreage of independent farms was embraced in applications of farmers seeking membership in the Association. The dead-line for making application for membership was March 1, 1956 (Hearing, p.361).

The reduction in the proportion of the crop produced on non-member farms is indicated in a report by The Canadian Tobacco Grower, August, 1956 of statements made by F. R Gregory, Chairman of the Board, at the annual meeting of the Association held in Simcoe on July 11, 1956. The Chairman was reported as follows:

" 'Last year's Board faced grave problems, ' he said. 'It was found that more than 10 per cent. of the flue-cured tobacco crop in Ontario was being grown by non-members.

However, the majority of the non-member farms were discovered to be either owned or financed by members of the Association. So we decided to take in the free-lance farms on an acreage per kiln basis and I think the outcome has been very satisfactory. Now less than three per cent. of the tobacco crop is grown outside the Association. ' "

CHAPTER V

ACTIVITIES OF THE ASSOCIATION

On being admitted to membership in the Association, producer and buyer members agree to abide by the by-laws, rules, orders and regulations of the Association. Specific penalties have been provided in certain instances for failure on the part of a member to conduct his affairs in accordance with the requirements of the Association and membership of a member may be suspended or cancelled for failure to comply with the obligations of membership.

The principal objectives to which the activities of the Association have been directed have included (a) control of production of flue-cured tobacco, (b) establishment of the minimum average price for tobacco produced by members and (c) control of marketing of members' crops.

1. Control of Production

The principal methods used by the Association for the control of production have been the annual acreage allotment for members' crops and the policy of deferring acceptance of new producers, already described. Prior to the period of planting in each year the Association attempts to forecast the quantity of flue-cured tobacco which will meet the demands of domestic and export markets and then fixes the acreage considered necessary to produce the estimated quantity of tobacco. The manner in which the estimates are reached was described as follows by one witness:

"Well I would say the first step that we generally follow is to attempt to obtain all of the figures on requirements; that is both from the export market as well as the domestic market point of view. Then we set against that the acreages to be grown in this way; Quebec has about 5,500 acres or thereabouts; there are so many acres of independent producers over whom we have no control; and then we have the residual acreage which is within the Association. So that if we take, we'll say, a five year average yield, giving a figure of say 1,400 pounds to the acre, we'll then say the 5,500 acres in Quebec can be counted on to grow so many pounds, the independent acreage at the same rate can be counted on to produce so many pounds,

and therefore we will have to cut the acreage of our members down to a figure which if multiplied by 1,400 will produce the approximate balance. That is the general method."⁽¹⁾

The production of producer members of the Association was controlled by fixing the proportion of the basic acreage allotment of each member's farm which could be devoted to flue-cured tobacco in each year. In any year when it was felt that less than a normal crop on the basic acreage could be disposed of the Association reduced the basic acreage by an amount considered to be sufficient to keep the total output in line with the anticipated demand. In such cases the producer members would be advised early enough ahead of planting what percentage reduction on basic acreage would apply during that year. The first allotment was made in the year 1937 and subsequent allotments were as shown in Table 6.

Table 6 - Association Members' Acreage Allotment as per cent of Basic Acreage, 1936-1956

<u>Year</u>	<u>Association Allotment as per cent of Basic Acreage</u>
1936	*
1937	95.9
1938	95.3
1939	93.6
1940	66-2/3
1941	75
1942	100
1943	open
1944	open
1945	open
1946	open
1947	open
1948	85
1949	85
1950	83
1951	100
1952	66-2/3
1953	75
1954	100
1955	70
1956	91

* The first meeting of the Board of Directors was held October 27, 1936.

Sources: Returns of Information by Secretary of Association, dated November 19, 1954 and November 14, 1955 and for 1956, Hearing, p. 154.

(1) Hearing, pp. 154-55

In 13 out of the 21 years of its operation the Association allotment was "open" or more than 90 per cent of basic acreage. In three years it was between 80 and 90 per cent and in five years it was less than 80 per cent, being $66\frac{2}{3}$ per cent in two years, 70 per cent in one and 75 per cent in two years.

The evidence does not show the production which it was anticipated would result from the acreage allotment in each year taken with the acreage which was outside the Association. On the basis of the method of arriving at the acreage allotment, described in the extract from the evidence quoted above, it is possible to construct a table of possible production which may be compared with the actual production in each year:

Table 7 - Tobacco, Flue-Cured: Potential Production, based on Average Yield per Acre, and Actual Production, 1948-1955

1	2	3	4	5	6	7	8	9	10
Year	Acreage Outside Association Preceding Year	Associa- tion Basic Acreage	Quota %	Associa- tion Allot- ment	Total Acreage (2 + 5)	Yield per Acre Moving Average	Potential Production	Actual Yield per Acre	Actual Production
	acres	acres		acres	acres	lb.	lb.	lb.	lb.
1948	7,818	113,913	85	96,827	104,645	1,051	109,981,895	1,127	102,442,000
1949	6,181	115,222	85	97,939	104,120	1,077	112,137,240	1,286	116,668,000
1950	5,541	115,259	83	95,665	101,206	1,102	111,529,012	1,175	108,202,000
1951	6,179	116,150	100	116,150	122,329	1,137	139,088,073	1,294	144,055,000
1952	8,994	121,674	66-2/3	81,116	90,110	1,142	102,905,620	1,534	131,965,000
1953	7,403	119,623	75	89,718	97,121	1,283	124,606,243	1,382	132,352,000
1954	10,081	119,595	100	119,595	129,676	1,330	172,469,080	1,410	173,159,000
1955	12,150	119,504	70	83,653	95,803	1,360	130,292,080	1,202	118,206,000

Sources:

D. B. S. Reference Papers, 1950, Historical Series of Tobacco Statistics;
D. B. S. Memoranda, Leaf Tobacco Production and Value, 1949 to 1955;
D. B. S. Quarterly Stocks and Consumption of Unmanufactured Tobacco,
March, 1956;

Exhibit H-4.

To the Ontario flue-cured tobacco grower the acreage allotment has become the most important and most valuable specific feature of the Association. This stems from the fact that the acreage allotment surrounded by the provisions for its enforcement and protection is regarded as adding a substantial degree of security with respect to the sale of the crop and the income from it. Acreage allotments are jealously guarded by members of the Association and there is apparently a continued demand for increased allotments, although no method has been established to change allotments. Acreage allotments are also anxiously sought for by new growers, even though the obligations of membership limit the freedom of the grower to determine the size of his crop. These allotments, popularly known as "rights", are regarded as having substantial market value in the sale of tobacco farms. Suitable tobacco land not carrying such rights is apparently expected to sell for a much lower price than similar land having rights. Advertisements offering tobacco farms for sale generally indicate the number of acres with M. B. R. (Marketing Board Rights). This is considered an attraction for the sale of the farm. Several witnesses stated that a farm was more valuable if it had "rights". One witness who had been growing tobacco for three years stated that no interest was taken in his farm when prospective buyers found it was a "freelance" farm.⁽¹⁾

When the proposal for a marketing scheme under provincial legislation was under consideration in 1951, the Board, which opposed acceptance of a statutory scheme, published a statement which referred to tobacco rights as having a total value of \$115,000,000. As the basic acreage of members at that time was about 116,000 acres the total acreage for tobacco cultivation, taking into consideration the necessary rotation, would be about 232,000 acres which would give a farm valuation, attributable to "rights", of about \$500 per acre. In the circumstances this figure may be regarded as containing a certain element of "puffing". In correspondence which was published in The Canadian Tobacco Grower, April, 1956, a grower estimated that the granting of basic acreage rights to independent producers would increase, in many cases, the value of a tobacco farm by \$20,000 to \$30,000. It is evident, therefore, that the acreage allotments by the Association are considered to have a substantial value per acre.

The features which appear to create the tangible value in "rights", which of themselves produce no income, may be regarded as having two main aspects: first, the greater assurance, as viewed by a prospective purchaser, that the grower with rights will be able to sell his tobacco within the original marketing period set by the Board of Directors of the Association and, second, the grower can expect to receive at least the average minimum price in keeping with the grades of his crop as set by the Board. A further consideration is the

(1) Evidence, p. 390.

possibility that, without "rights", he might in certain circumstances which have never yet occurred, not be able to sell his crop at all.

2. Establishment of Minimum Average Price

The Board has the responsibility of establishing the minimum average price for the current crop. This is done through a Market Appraisal Committee which the Board appoints under By-law 54. This by-law has been amended on several occasions but in essence has remained the same.⁽¹⁾ The Market Appraisal Committee consists of the following: three Directors representing the producer members elected from the producer Directors, three Directors representing the buyer members, the three being representatives of those members whose purchases in the previous three years were the largest. If the Chairman of the Board is a producer member of the Committee then the Committee remains at six members, however if the Chairman is not among the producer members then he becomes a member of the Committee and the Committee consists of seven members. It is customary for the Committee to meet for price determination some time in October or shortly before the crop is ready for marketing. At such meeting the Board provides the Committee with an estimate of the number of pounds of tobacco which will be produced that year by the different grades. This estimate is obtained by the Board from a survey of the current crop. It is the task of the Committee to employ this estimate and to agree unanimously upon the average price per pound for the whole crop of tobacco. If the Committee fails to agree unanimously upon an average price per pound, there is provision for a referee to be called in whose decision is final and binding upon the Committee and is to be accepted by the Board.⁽²⁾ When the Committee, or the referee, has determined the average price per pound for the whole crop of tobacco its next duty is to determine the relative price per pound of each grade of tobacco "employing therefor and without modification in their relation of one to another the following relative grade values. . ."⁽³⁾

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- (1) By-law 54, Exhibit S.1 (b), Serials 68-70, amended July 24, 1952, Exhibit S.1 (c), Serial 271.
 - (2) This procedure has never been followed although in 1944 no price agreement was reached by the Committee and the sale of the crop proceeded without a minimum price being fixed.
 - (3) Exhibit S.1 (b), Serial 69. The grade values, established in 1936, have continued without change ever since.

The average price agreed upon by the Committee then becomes binding upon all members of the Association. It should be noted, however, that no buyer is obliged to buy the tobacco of any member. The appraised price per pound of each of the respective grades of tobacco is not made public, nor are these individual grade prices binding upon the buyer member. That is, no buyer is obliged to pay the individual grade price to a grower when he buys his crop. Buyer members, however, do assume the obligation under Order No. 7⁽¹⁾ to pay for all tobacco purchased, prices which in the aggregate shall not be less than the aggregate appraised value of all tobacco of each year's crop purchased. In the event that the aggregate purchase price is less than the aggregate appraised value of all tobacco purchased in that year, the buyers are obliged to make up to the Association the difference between the minimum average price and the actual price paid by the buyers. This amount presumably would then be distributed by the Association to the various member growers on a basis proportionate to their sales.⁽²⁾

Table 8 - Minimum Average Price for Members' Crops as Agreed upon by the Market Appraisal Committee and the Over-All Average Price per Pound of Tobacco Received by Members, 1945-1953

Year	Agreed Min. Average Price per lb.	Actual Over-All Average Price Received per lb.
	¢	¢
1945	33.25	34.84
1946	35.33	37.42
1947	36.50	38.09
1948	41.25	43.98
1949	42.00	43.23
1950	44.00	44.92
1951	44.50	44.57
1952	42.25	42.44
1953	43.00	44.11

Source: Return of Information by Secretary of Association, dated November 19, 1954

(1) Exhibit S, 1 (b), Serial 90.

(2) The evidence does not disclose whether there was any time in the existence of the Association that such a deficiency had to be made up by the buyers.

Table 8 shows for the years 1945-53 the agreed minimum average price arrived at by the Market Appraisal Committee and the actual over-all average price paid by the buyers to the producer members for the same years. It will be noted that in no year in that period did the actual over-all average price drop below the agreed minimum average price.

As part of the order fixing the date for the meeting of the Market Appraisal Committee the Board generally includes certain other provisions relating to the marketing of the current crop of tobacco. These provisions include the following:

- (a) Provision for the opening date of the sale of tobacco by producer members. This date has usually been about the end of October or early November.
- (b) Establishment of an exclusive market for members in terms of a time period and/or a percentage sale of their total crop. For example, in the year 1952 the order read as follows:

"Until 85% of the 1952 crop owned by Producer Members of the Association has been purchased or until January 1, 1953, whichever is the earlier" ⁽¹⁾

Within this time period or percentage limitation it is intended that buyers should confine their purchases to the crops of members.

- (c) Provision that no deficiency payment shall be made in respect of any tobacco purchased by a member after the expiry either of the pre-determined market period or the attainment of the pre-determined percentage.
- (d) Establishing the toll or charge that producer members will be required to pay to the Association for the services rendered by it. This toll, which was as low as 3 cents per hundred pounds for the 1945 crop, had increased to 12 1/2 cents per hundred pounds for the 1952 crop. It is collected for the Association by the buyer members in the form of a deduction in the price payable to each producer member.

In 1952, to which year reference is made in (b) above, the market for producer members opened on November 4 and that for independents on December 16. The period between these two dates

(1) Exhibit S.1 (a), Serial 185.

was longer than that which had been allowed in preceding years since the war but was exceeded in the case of the 1953 crop as shown by the following table.

Table 9 - Tobacco, Flue-Cured: Opening Dates of Markets, Ontario, 1945-1955

Year	Association (Except Essex County)	Independent	Essex County
1945	Oct. 30	Oct. 30	Nov. 6
1946	Nov. 5	Nov. 5	Nov. 12
1947	Nov. 20	Dec. 1	Nov. 27
1948	Nov. 2	Nov. 10	Nov. 9
1949	Nov. 1	Nov. 11	Nov. 8
1950	Nov. 7	Nov. 17	Nov. 14
1951	Oct. 25	Nov. 15	Nov. 1
1952	Nov. 4	Dec. 16	Nov. 11
1953	Nov. 3	Jan. 12/54	Nov. 10
1954	Nov. 9	Nov. 18	Nov. 16
1955	Oct. 25	Nov. 3	Nov. 1

Source: Exhibit H-3

3. Enforcement of the Association By-Laws and Orders

The effectiveness of the Association's control over production and marketing appears to be supported by a number of factors apart from the formal measures to secure observance of the regulations. Some of these factors may be considered before the formal measures are reviewed.

(a) The Attitude of Tobacco Growers, Member or Independent, towards the Need for Acreage Control

Many examples of this attitude may be found in the evidence. One independent grower gave the following reason for seeking to join the Association:

"Q. You have made application to the Association. Presumably you will be accepted. Why do you wish to join the Association?

A. We have got to have acreage control. That is my opinion.

We have to keep the lines so we don't have an over-production.

Q. Do you believe in that?

A. Definitely. "⁽¹⁾

Another witness, who has been a producer member for many years and was, at one time, a member of the Board of Directors, when asked why the number of independent growers had not increased more than they actually had, replied:

"A. Well, I think the capital certainly is one limiting factor, but I think also that these independent growers or operators are not a group of people who come from hither and yon, but most of them grow, and are connected with the industry right here, and consequently, they are in touch or certainly understand the situation from year to year, and it would seem to me to be very illogical -- and I think to them too -- if, for instance a year is coming up where they realize that possibly there is not a large demand or else they realize that the present farms can produce all the tobacco that is required, it would seem rather foolish to all of a sudden add more coal on the fire, so to speak. "⁽²⁾

Another independent grower expressed a similar view with respect to acreage control when asked why he sought to become a member:

"Q. Why do you feel you should become a member of the Association?

A. I just believe that tobacco should be controlled, that acreage should be controlled. "⁽³⁾

In public discussion of acreage control great emphasis has been put on the advantages to all growers which result from the policy pursued by the Association and the ill effects which would follow if the Association abandoned control of acreage. Mr. F. R. Gregory, Chairman of the Board, and a long-time grower of tobacco was reported as follows in The Delhi News-Record of January 5, 1956 during the period when new members were being accepted by the Association:

(1) Hearing, p. 415.

(2) Hearing, p. 281.

(3) Hearing, p. 422.

" 'With no foreseeable outlet of more than 150 million pounds it seems that an unbridled acreage would be most unfortunate,' Mr. Gregory said in the official statement. 'It will mean over-production and a depressed market in 1956. Should the independent growers decide to join and take an acreage cut along with others then the evil day of the survival of the fittest may be postponed, but, in my opinion, only postponed unless the demand increases much faster than now seems probable.' "

The point of view of the local community in the tobacco-growing area may be reflected in this editorial comment in the same issue of this newspaper:

"The News-Record joins with the Board in urging all independents to unite with the Association and preserve the core of stability which the Association has constituted. Outside the organization little can be done to see that it is run the way it should be, and that it contributes to the welfare of the tobacco growers as it is designed to do We believe also, that every member of the Ontario Flue-Cured Tobacco Marketing Association who is acquainted with an independent grower, should do all within his power to persuade and point out the advantages to him, and tobacco in general, which a strong Marketing Association presents. "

It is evident that a strong belief in the value of acreage control is held both by members of the Association and by independent growers and that support for this attitude arises largely from the fear that without such control there would be a depressed and uncertain market for flue-cured tobacco.

(b) The Relative Difficulty of Entry into Tobacco Production

It has already been indicated that the production of flue-cured tobacco is a highly specialized agricultural undertaking, requiring a large capital outlay, and adequate and reliable supply of labour and extensive skill and knowledge in tobacco production on the part of the grower. The producer who enters this field is, in a sense, committing his resources and endeavours to a single crop. It is natural, therefore, that he should seek the greatest assurance possible that the return from his enterprise will be commensurate with his investment of money, time and skills. Some who wish to enter this field will seek to secure an established farm which has membership rights and which thus appears to offer greater stability from the viewpoint of the sale of the crop under agreed conditions as to price. As has already been noted, there is a cost for this assurance in the higher values attached to such farms.

If tobacco production was confined to existing farms with Association membership the control of production by the Association would be more extensive than is actually the case. It is necessary, therefore, to consider the conditions affecting the development of flue-cured tobacco farms outside the Association.

There is evidence to show that to a considerable, but undefined, extent the addition of new flue-cured tobacco farms has been brought about by the direct or indirect assistance of producer members of the Association. In other words, the resources and skills of established growers have been employed to assist a member of the family, another relative or someone else, perhaps already engaged on a share basis, to bring additional acreage into production. To the extent this has been done it may be assumed that such members believed that the market was capable of absorbing the additional production without disturbance. Inasmuch as such additional undertakings would have to be financed and managed, in effect, by one enterprise there may be considerable financial and managerial limitations to very extensive additions in this manner.

The development of a new flue-cured tobacco farm on an entirely independent basis would be regarded as involving greater risk than the addition of acreage possessing some relationship to an established farm. Not only would sufficient finances have to be secured for an untried enterprise but the location of the farm might be in an area in which the soil and climatic conditions had not previously been proven to be favourable for flue-cured tobacco production. It is only to be expected that in such circumstances would-be producers would find much greater difficulties in securing the necessary financial resources and in becoming established as tobacco producers. Nevertheless those who were able to overcome the difficulties and become established as producers of flue-cured tobacco would undoubtedly regard the existence of the Association as a factor contributing toward the continuance of a more stable market for the crop.

The information in the evidence as to the number of flue-cured tobacco farms in Ontario is not sufficiently complete to enable the changes from year to year to be traced accurately. The figures in Table 5, presented earlier, show the number of Association and independent farms in each year, with the average acreage per farm. However, the Secretary of the Association pointed out in evidence that some time might elapse, in some cases over a year, before the farm of a producer admitted to membership might be included in the figures for the Association and such lags in entering the data might distort the two series of figures for members and non-members. With this qualification the following tabulation presents the combined figures for Association and independent farms as given in Table 5 and also the quota of basic acreage assigned to members in each year.

Table 10 - Number of Association and Independent Farms,
Ontario, and Percentage of Basic Acreage
Allotment, 1936-1955

Year	No. of Association Farms	No. of Independent Farms	No. of Farms	% of Basic Acreage Allotment
1936	1,529		(Not available)	-
1937	2,074		"	95.9
1938	2,534		"	95.3
1939	2,575		"	93.6
1940	2,405		"	66-2/3
1941	2,247	329	2,576	75
1942	2,181	417	2,598	100
1943	2,237	196	2,533	open
1944	2,377	330	2,707	open
1945	2,627	272	2,899	open
1946	2,833	274	3,107	open
1947	3,123	126	3,249	open
1948	3,447	38	3,485	85
1949	3,566	56	3,622	85
1950	3,557	76	3,633	83
1951	3,556	155	3,711	100
1952	3,596	215	3,811	66-2/3
1953	3,638	202	3,840	75
1954	3,571	304	3,875	100
1955	3,564	523	4,087	70

Sources: Exhibit H-4, and Returns of Information by Secretary of Association dated November 19, 1954 and November 24, 1955.

The foregoing figures for number of farms show that since 1936 (if the figures for Association farms can be taken as indicating the trend prior to 1941) there was a continuous increase in the number of farms producing flue-cured tobacco in Ontario with the exception of the years 1940 and 1943. It is possible that the declines in these years, if accurately reported, were attributable to conditions arising out of war mobilization of both labour and resources. It will also be noted that with the exception of the period from 1936 to 1938 the rise in number of farms has been a gradual one.

It will be noted that when the number of independent farms declined the number of Association farms increased. This is understandable since it meant that the Association was accepting new members or completing the registration of members accepted earlier.

It is also the case that there appears to be a tendency toward a shrinkage in the number of membership farms in the absence of the admittance of new members. This tendency usually becomes more evident in periods when there is a drastic curtailment in the acreage allotment. A contributing factor in such situations may be that some members, perhaps with small acreages, found it unprofitable to continue to produce tobacco on a limited scale and withdrew from the Association because they were retiring from tobacco production or to pursue an independent course.

Data are available showing the number of new firms included in membership of the Association from 1945 to 1951 and the acreage allotment of each farm. The following table shows the distribution of new farms according to size of acreage allotment in this period.

Table 11 - Distribution of New Farms Admitted to Association Membership, According to Acreage Allotment, 1945-1951

No. of Acres	1945	1946	1947	1948	1949	1950	1951	Totals	% of Total
up to 1.4	-	-	-	-	-	-	-	-	-
1.5 - 7.4	4	1	9	6	-	-	10	30	2.9
7.5 - 12.4	9	11	20	14	1	-	2	57	5.5
12.5 - 17.4	31	28	40	23	3	-	9	134	12.1
17.5 - 22.4	58	39	64	17	1	-	11	190	18.3
22.5 - 27.4	57	60	57	18	4	1	3	200	19.3
27.5 - 32.4	46	38	45	11	1	-	5	146	14.1
32.5 - 47.4	-	88	84	18	4	-	4	198	19.1
47.5 - 77.4	1	28	17	18	-	-	-	64	6.2
77.5 and over	3	7	5	4	-	-	-	19	1.8
Totals	209	300	341	129	14	1	44	1,038	100.0

Source: Exhibit S. 4

It will be noted that the bulk of the farms in each year received allotments exceeding 17.5 acres and that in some years 45 to 50 per cent of the farms were in the groups of over 22.5 acres and in 1946 and 1947 there were 45 to 50 per cent of the farms over 27.5 acres. These groupings may be compared with the average of about 31 acres for Association farms in years when there was no restriction of basic acreage.

The Association also furnished information on the tobacco acreage of non-member farms in 1954 and the following table presents a tabulation of the figures.

Table 12 - Distribution of Non-Member Farms According to Acreage of Tobacco, 1954

<u>No. of Acres</u>		<u>% of Total</u>
up to 1.4	-	-
1.5 - 7.4	19	7.1
7.5 - 12.4	50	18.8
12.5 - 17.4	43	16.2
17.5 - 22.4	50	18.8
22.5 - 27.4	37	13.9
27.5 - 32.4	22	8.3
32.5 - 47.4	36	13.5
47.5 - 77.4	9	3.4
77.5 and over	-	-
Total	<u>266</u>	<u>100.0</u>

Source: Exhibit S. 6(4)

It will be noted that the total of 266 is less than the total 304 independent farms shown in Table 5. This arises from the fact that in the list of independent farms the acreage is not shown in all cases.

If the figures for new farms admitted in the period 1945 to 1951 are totalled for the entire period and then arranged in a percentage distribution the following comparison may be made with the distribution of independent farms according to acreage.

Table 13 - Percentage Distribution of New Member Farms in the Period 1945 to 1951 and Independent Farms in 1954, According to Acreage

<u>Acreage</u>	Total New Member Farms 1945-1951	Independent Farms 1954
	<u>%</u>	<u>%</u>
up to 1.4	-	-
1.5 - 7.4	2.9	7.1
7.5 - 12.4	5.5	18.8
12.5 - 17.4	12.1	16.2
17.5 - 22.4	18.3	18.8
22.5 - 27.4	19.3	13.9
27.5 - 32.4	14.1	8.3
32.5 - 47.4	19.1	13.5
47.5 - 77.4	6.2	3.4
77.5 and over	<u>1.8</u>	<u>-</u>
	100.0	100.0
No. of farms	<u>1,038</u>	<u>266</u>

Sources: Exhibit S.4, Exhibit S.6(4)

While it is not known how long the farms in each period had been producing flue-cured tobacco it might be expected that the newer farms would tend, on the whole, to have smaller acreages. It will be noted that a much larger proportion of the independent farms in 1954 were under 17.5 acres than was the case with new members in the period 1945 to 1951. Of the latter, 20.5 per cent fell in this class while 42.1 per cent of the independent farms were so classified.

While the amount of acreage farmed by independent flue-cured tobacco growers has fluctuated during the years since 1936, the bulk of the production has been supplied by member growers. This has resulted from the fact that the acreage of independent growers, in relation to the over-all acreage has been relatively small and this, again, has been affected by the action of the Association, from time to time, in admitting new members. It is also the fact that the Association has generally admitted to membership only persons who have already engaged their farms in the production of flue-cured tobacco and have developed them to conform to standards as to number of kilns, etc., acceptable to the Association. This means that a would-be producer cannot be assured, in advance of entering the field of flue-cured tobacco production, that he will be able to secure membership in the Association. His investment must be made and operations conducted for a period, sometimes of several years, before he will know whether the Association will consider accepting him as a new member. In view of the great reliance placed upon Association

membership the uncertainty about being able to secure membership must be a factor considered very carefully by those contemplating entering this field of production, as well as by those who may be asked to provide financial backing for such a venture.

Table 14 shows the proportion of the total crop of flue-cured tobacco in Ontario produced by Association members in the years from 1945 on. Data are not available to show the proportion of the total supply produced by Association members in earlier years.

Table 14 - Tobacco, Flue-Cured: Total Production, Amounts Sold by Association Members and Independent Growers, Ontario, 1945-1955

Year	Total Production '000 lb.	Sold by Association Members '000 lb.	Sold by Independent Growers '000 lb.	% Sales of Association Members to Total %	Farm Price per lb. ¢
1945	71,056	66,767	4,289	94	34.9
1946	114,992	109,060	5,917	95	36.7
1947	83,206	82,060	1,217	99	37.3
1948	98,072	97,417	651	99	42.7
1949	114,161	113,196	962	99	42.2
1950	104,179	102,521	1,657	98	44.7
1951	140,023	138,230	1,843	99	44.4
1952	127,435	124,043	3,387	97	41.6
1953	127,394	123,187	4,108	97	43.8
1954	167,988	160,846	7,137	96	43.2
1955	112,202	101,000	11,202	90	45.5

Sources: Return of Information by Secretary of Association, dated November 19, 1954; Exhibits H-1 and H-4; Sales of Members in 1955 as reported in The Canadian Tobacco Grower, August, 1956, p. 34; and Total Production and Value, 1955, as reported in D. B. S. Memorandum, Leaf Tobacco Production and Value 1955.

In 1945 about 6 per cent of the total output was produced by non-members of the Association. In the following years the proportion declined and from 1947 to 1951 remained at about 1 per cent. In these years, as has already been shown, new members were being admitted to the Association. Commencing in 1952, however, the output of non-members to the total began to rise, advancing to 3 per cent in that year and then to 4 per cent in 1954 and to 10 per cent in 1955. In these years no new members were being accepted by the Association. The sharply higher proportion of the crop produced by non-members in 1955 may be explained as a result of the drastic

acreage reduction made by the Association in that year. It will be recalled that the acreage allotment of members was reduced by 30 per cent in 1955. On reference to Table 5 it will be seen that although the acreage of non-members increased from about 5,750 acres in 1954 to 10,648 in 1955, the acreage of members fell from 110,665 in 1954 to 81,295 in 1955. It seemed to be generally assumed by witnesses that this drastic reduction in allotments encouraged independent growers to expand their acreage and, in fact, that some of the expansion was brought about indirectly by members assisting production on acreage not subject to Association control.

The general trends in the production of flue-cured tobacco in Ontario are indicated in Table 15. The area of this crop increased at a fairly rapid rate in the earlier years and growth continued at a lesser but still high rate until after the war. Since 1949, however, the increase in acreage harvested has been at a much slower pace. Yield per acre, on the other hand, increased substantially in the same period except in 1955 when the crop was affected by frost. The increasing yield per acre, when the years are averaged, provided a relatively stable rate of growth in output, even with the fluctuations in acreage over the years. Such fluctuations in acreage were influenced in certain years by the allotments fixed by the Association.

Table 15 - Tobacco, Flue-Cured: Area, Yield per Acre, Production, Total Farm Value and Changes from One Period to the Next for Area and Production, Ontario, 1929-1955

Period	Area acres	Per Cent Change	Yield per Acre lb.	Per Cent Change	Production '000 lb.	Per Cent Change	Value \$ Million	Per Cent Change
1929-33	23,480	-	856	-	20,094	-	4.3	-
1934-38	40,929	+74	1,038	+21	42,480	+111	10.7	+149
1939-43	53,898	+32	1,136	+9	61,229	+44	14.7	+37
1944-48	82,068	+52	1,096	-4	89,984	+47	33.0	+124
1949-53	90,397	+10	1,357	+24	122,638	+36	53.1	+61
1954	116,990	+29	1,436	+6	167,988	+37	72.6	+37
1955	91,784	-22	1,222	-15	112,202	-33	51.0	-30

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Sources: D. B. S. Reference Papers, 1950, Historical Series of Tobacco Statistics;
Leaf Tobacco Production and Value, 1949 to 1955.

At an early stage the Association adopted measures against joint arrangements for the production or marketing of flue-cured tobacco between members and non-members and recently additional measures to close possible loop-holes have been adopted. Order No. 35, passed in 1939, prohibits a grower member from directly or indirectly delivering any tobacco produced by any other person or produced by the grower member on any land other than that on which was produced the crop purchased by the buyer member. Clause (m) of By-law 49 empowers the Board to determine that no member shall "store, process, pack or in any manner deal in tobacco produced by or for a person not a member of the Association". By-law 59, which was adopted at a special general meeting on February 17, 1956, provides that no member by himself or in association with any other person, including any member of his family or other relative, shall acquire, own or have any interest in any land used in whole or in part for the production of flue-cured tobacco unless such land has been granted basic acreage for the production of tobacco by the Association. A penalty of 50 per cent of the gross proceeds of the sale of such tobacco is imposed on any member growing tobacco in this way and no selling permit can be issued to him until he has satisfied the Board on this score. Such member may even be liable to suspension or cancellation of membership. The by-law also provides that each member shall file with the Association before the first of March of each year a statutory declaration that he has no direct or indirect interest in any flue-cured tobacco land other than that granted basic acreage. Order No. 99 of October 1, 1955 provides that a producer member who grows flue-cured tobacco in excess of his acreage allotment and refuses to cut down the excess when so directed by the Inspector of the Association is to be put on the deferred list for selling until he assigns the excess to the Association. This order also prohibits a producer member from renting land to a non-member and from growing his acreage allotment of flue-cured tobacco on any land other than that owned by him. The essence of these measures is that only grower members may deliver tobacco to buyers and that such tobacco must be from the allotment on land owned by the member. These restrictions also prevent non-members from getting their crops sold otherwise than directly by themselves. They are intended to prevent members from extending beyond their basic acreage and to prevent non-members from utilizing buildings or other services with which members might otherwise be able to provide them. One witness, a non-member, gave an instance of this kind in regard to a surplus of seedling plants in the hands of a neighbour, a member, which could not be sold or otherwise disposed of to a non-member.

"BY THE CHAIRMAN:

Q. You say he had a great many plants in his greenhouse?

A. Yes, there was.

Q. More than he could use at that time?

A. There never was a plant pulled out of the greenhouse. They were just left there to die. He never used them.

Q. He didn't use them at all?

A. No.

Q. But he would not sell any to you?

A. He would not sell any to me. "(1)

Other witnesses indicated that the same situation applied with respect to the renting or using of members' barns or kilns by non-members. While the defence of such restrictions by the Association is based on the argument that it is designed to prevent poor quality tobacco from getting mixed into members' tobacco, which is grown with an aim for quality, it is evident that they also have the effect of preventing non-members having easy access to existing facilities, which facilities could be used to enable them to produce tobacco more readily. One implication of this action on the part of the Association is that it prevents some members from utilizing to the maximum the equipment and/or buildings which they have on their farms. This would be especially so in cases where the member grower has a small acreage of tobacco allotment. It was stated by several witnesses that, within undefined limits, a larger acreage means a lower per unit cost of production. This is largely due to the overhead costs involved. However, if members were permitted to rent their buildings or equipment or to sell seedlings to non-members they could thereby reduce their overhead costs. By having access to unused capacity on members' farms non-members could produce their own tobacco at a lower cost, inasmuch as they would save the expense of acquiring such facilities by increasing their investment in greenhouses, kilns or other equipment. Such restrictions, therefore, have the effect of making more difficult the production of flue-cured tobacco by non-members because of the preponderance of acreage and facilities on Association farms.

(c) The Bilateral Nature of the Association

As was pointed out previously, all the 7 buying firms, members of the Association, constitute all buyers of raw leaf in Ontario. Thus there are no other buyers in the market to whom growers can sell their crops. These buyers have entered into a

(1) Evidence, p. 387.

mutually-agreed arrangement with growers for the control of the production and marketing of the members' crops. This arrangement between all the buyers and the producer members, which is binding in all its aspects upon both, invests the Association with a power of control which extends to its members as well as to independent producers. This power is basically the right to refuse any grower the privilege or opportunity of selling his crop either at the proper time or at all. While there is no evidence to show that growers, whether they were members of the Association or not, have not been able to sell their crop such control is expressed in the agreement and the possibility that it might come to bear to the disadvantage of a grower is implicit in the attitude of producers toward the Association. From the point of view of the grower, even though the Association may not exercise its power of restricting the market to them, the very presence of such power must be a factor in determining the conduct of a producer whether within or outside the Association.

(d) Penalty Provisions - Stated and Implied

The Board may impose certain penalties on members who fail to comply with any by-law or order of the Association. By-law 8 gives the Board power to suspend or cancel the membership of any member who fails to comply with any by-law or regulation of the Association or order of the Board, or who fails to apply for a permit to buy or sell tobacco. By-law 10 provides for liquidated damages of 1 cent per pound to be charged against any grower who resigns between August 1st in any year and the succeeding 31st day of March. This charge is against all tobacco of the crop marketed during the period, either before or after resignation. Order No. 5 provides for the granting of a selling permit to each member. It also provides for termination of the rights under this permit and a cancellation of membership in the Association of any grower who violates terms and conditions of the permit or of any rule, order or regulation of the Board. Order No. 25 provides that no producer member shall in any year harvest tobacco, the produce of acreage in excess of that stipulated in the cultivating permit issued to him with respect to that year. The following penalty was added to this order by resolution of the Board at the meeting of March 11, 1953:

" . . . all growers be notified if they harvest tobacco in excess of their allotment, one hundred per cent of the money realized from that portion in excess will have to be paid to the Association. "(1)

The foregoing list of by-laws, orders and regulations are the more important ones providing the Association with the power to discipline

(1) Exhibit S. 1(b), Serial 224.

the grower members. Suspension or cancellation of membership has not been invoked in the history of the Association and the imposition of financial penalties has taken place infrequently and to a very limited extent. An example is shown in the statement of income and expenses of the Association for the year ended May 31, 1954. Under the item "income" are recorded:

"Amounts received from grower members under the provisions of a resolution passed by the directors of the Association on March 11, 1953 - representing estimated proceeds from the sale of flue-cured tobacco harvested from acreage in excess of allotments 1,760.66

Amount received under the provisions of by-law 10, paragraph (a) of the Association - representing liquidated damages of 1¢ per pound on tobacco of the 1953 crop harvested by a member who resigned from the Association 98.46"(1)

Although action to suspend or cancel a membership has not been taken it remains a potential penalty of a strigent kind, especially since the decision is entirely at the discretion of the Directors and their decision is final. Suspension or cancellation of membership apparently has never happened. This was brought out in the evidence of the then Chairman of the Board, as follows:

"Q. . . . Who is the judge there as to whether or not he has complied with a by-law?

A. The directors.

Q. The directors are the judge and the directors are the persons who suspend?

A. That is right.

Q. The licences. And when a man's membership is cancelled does that mean that he loses any rights given him by the Association?

A. I could not say; it has never happened."(2)

On the part of the producer member the deterrent effect of the power of suspension or cancellation of membership would appear to rest largely in the fear of the consequences which would follow the loss of membership "acreage rights" and the privileges of selling his crop as an Association member. Inasmuch as the acreage rights are con-

(1) Exhibit S. 6(2).

(2) Evidence, p. 44.

sidered to have substantial market value in terms of the selling value of a farm, the loss of such rights would be regarded as a serious financial loss. The disadvantage of not being able to sell as an Association member is regarded so seriously that another form of discipline somewhat similar to suspension of membership has been applied by the Association. That is placing members on a "deferred list" for the sale of their crops. The deferred list was described in the evidence of the Association Secretary in the following terms:

"The deferred list is a list of members of our Association who either have grown in excess of their allotted acreage for the current year, refused to destroy it as requested by our Association, or who have committed infractions of one of our by-laws as laid down in our by-laws.

Q. When they are placed on the deferred list, what does that mean? What is deferred?

A. Deferred selling.

Q. That is, they will not be allowed to sell their tobacco as early as members who are not subject to that discipline?

A. That is correct.

BY THE CHAIRMAN:

Q. You mean that they are permitted to sell only when those in good standing have disposed of their crops?

A. Not necessarily.

Q. Or is it a fixed date?

A. It is a fixed date. There is an order passed, "(1)

Being placed on the deferred list has, for the period of deferment, the same meaning to the grower as being a non-member. In addition to this a certain stigma may also attach to a member grower who is placed on the deferred list for failing to abide by the regulations. Regardless of the social significance of being put on a deferred list, the fact that a member is put in the position of a non-member even for the period of deferment can result in greater cost and fear of financial loss to such grower. The risks that a non-member takes in so far as his position as a tobacco grower are concerned and which can apply to the grower on the deferred list, are the following:

(1) Evidence, pp. 19-20.

- (i) He may not be able to sell his crop or may have to take a lower price. If the buyers have been able to secure their requirements from the members in good standing they would not be interested in buying from non-members.
- (ii) The later sale period for non-member growers may result in a reduced income resulting from a combination of a lower price for the tobacco and increased costs in carrying and preparation of the crop. Although in recent years in the aggregate non-member growers have received about the same price as member growers, there would always be the fear on the part of the grower that this situation would not prevail and he would be more ready to accept the first offer made for his crop. On the expense side the increased costs may stem from several causes. The delayed selling time means that the non-member may not receive his returns on his crop as early as the member and consequently has to pay higher charges for his credit and other costs involved in the production of the crop. Another important cause for higher costs stems from the fact that the non-member may have a shorter period between the opening of the market to him and the time of sale in which to prepare his crop for delivery. This means that he has to employ more labour for the short period rather than utilize his own and family labour over a longer period commencing earlier in the season for sale. Thus his cash outlay is increased, in addition to his over-all costs. Another factor is that the delay of marketing for the non-member brings him into the colder period of the winter when he is required to heat his packbarn in order to preserve the condition of the tobacco when he is preparing it for market whereas the member who is able to sell and prepare his tobacco in November does not have these extra costs.⁽¹⁾
- (iii) It is more difficult for the non-member to get credit. This is due to the fact that bankers are desirous of having the maximum security for any credit extended; inasmuch as the credit required by a tobacco grower is so high, perhaps as much as ten to fifteen thousand dollars as already indicated, banks would want to have adequate security before extending this amount of credit. The possession of "rights" plus a permit for selling the crop which go with membership would appear to offer greater assurance for the granting of credit and the Secretary of the Association said that he received inquiries from bankers as to who are members or non-members.⁽²⁾ It is the general banking

(1) Evidence, pp. 670-71.

(2) Evidence, pp. 15-16.

practice to get an assignment of the proceeds of the crop when the credit is extended. This assignment is in the form of an order on the buyers to send all payments in the name of the grower and the bank when payment is made. Although evidence by bankers and some farmers indicated that the presence of rights and a selling permit are not always the deciding factor, they must be an important factor in the granting of credit. On the other hand farmers who are non-members indicated that unless you had very sound security or could get additional guarantees, the absence of rights and a selling permit made the obtaining of credit a very difficult matter.⁽¹⁾

(e) Regulations Applying to Activities of Buyers

The by-laws and orders of the Association also provide certain penalties and restrictions in so far as the buyer members are concerned. Order No. 12 provides for liquidated damages of 1¢ per pound to be paid by buyer members if they buy directly from any person on a deferred list of the Association. It also restricts buyer members, as it does grower members, from storing, processing, packing or in any manner dealing in tobacco produced by or for a person not a member of the Association. From 1939 to 1942 inclusive permission was given by the Board for the processing of non-members' crops; no further permission for processing appears to have been given until October 11, 1955 when Order No. 98 was passed which, among other things, permitted buyer members to process non-member crops. However, it does not appear that there was any demand for contract processing as distinct from outright purchasing of tobacco in the intervening years. Order No. 56 and similar orders passed annually restrict buyers from purchasing tobacco from non-members to the period after the expiry of the market date set for members' sales. With the exception of Order No. 12, however, no financial penalties are provided for imposition against buyer members who fail to comply with the provisions of the Association. Buyers do accept certain responsibilities under various by-laws and orders of the Association, relating in the main to the furnishing of information on market operations. Such obligations are of the nature of reporting to the accountants of the Association regularly the purchases and prices paid for tobaccos bought, the names of the members from whom tobacco has been bought and similar returns of information. However, it appears from the evidence that the buyer members, by and large, can and do operate with a considerable degree of independence in so far as their relationship with the Association is concerned, within limits which do not jeopardize the continuance of the Association. The fact that on all occasions but one a price has been negotiated and in

(1) Evidence, pp. 355; 390-92.

no instance has recourse been had to a referee for the determination of a price indicates that both sides seek to reach agreement. Similar give and take must also occur in negotiations for the fixing of the acreage allotment for each year. The action that the buyers took to reduce grower representation on the Board of Directors to an equal number to themselves, that is seven grower directors, indicates readiness on the part of buyers to develop an independent position when they considered it necessary. The reason for wanting a reduction from 15 to 7 grower directors was given by the buyers as a belief that equal representation on the Board would make for better relationships between growers and buyers. Even though some of the grower directors objected to it, that arrangement was finally approved after buyer directors threatened to resign from the Board if the proposal was not endorsed. Furthermore, though buyers do adhere fairly well to the regulation that they shall not buy from non-members before the expiry of the market period for members only, they have knowledge of the crops available on independent growers' farms and in planning their buying no doubt take such crops into consideration as part of their over-all purchases. In fact some buyers have indicated in the evidence that on occasions they buy non-members' crops just as soon as they buy members' crops. In other words, although they do not intentionally contravene the regulations of the Association they make purchases to fit their needs and the particular situation. An indication of this is given in the evidence by a former Chairman of the Board in an answer to a question about Order No. 52. This order permitted buyers to purchase non-member crops because of a surplus situation in the years 1939, 1940 and 1941. The following portion of the evidence relates to this order:

"Q. In other words, they do not pay any attention to this order, is that it?

A. At times, "(1)

The same witness gave the following further evidence in regard to the actions of the buyer members:

"BY THE CHAIRMAN:

. . .

Q. Do the companies observe the rule with regard to the opening of the market for non-members pretty well? Do they wait until, in this case the date set I think was January 1?

(1) Evidence, p. 80.

- A. To answer that question I would have to say that they buy some non-members' crops first. While they are buying members' crops the companies go out and they inspect and grade all crops, non-members and members. . . . They know the crops that they want as soon as they are on the market. They know what they can afford to pay, what they think they can afford to pay for them. The intention of the companies is to buy those crops. They know what they are.

BY MR. BROOKE:

- Q. Just so there won't be any misunderstanding I suggest to you that if the companies buy non-members' crops during the time the Association market is open they do it by mistake. They are not supposed to buy them, are they?

- A. According to the rules they are not supposed to buy."⁽¹⁾

(f) General Support for the Association

Although the evidence referred to in the preceding paragraphs indicates that buyers desire some flexibility in their operations and do not consider themselves bound too rigidly by the regulations, they continue in their support of the Association. What may be taken as a representative attitude is illustrated in the following evidence of E. D. Allen, Vice-President and General Manager, Canadian Leaf Tobacco Company Limited:

- "Q. Well, why are you in the Association?

- A. Why we are in the Association, we have mainly two beliefs on the matter. We are for an orderly market and stabilizing the industry from all angles that we can think of. I imagine if we took a very selfish attitude, thinking of ourselves and of our company only, by letting you might say everybody do as they doggone well please, we might make more money out of it but in the long range view we think for everybody concerned it is better to have a control, and that is our main reason for being in it."⁽²⁾

It is evident that both buyers and growers consider the effective operation of the Association to be good from a business point

(1) Evidence, pp. 127-28.

(2) Hearing, p. 239.

of view and to be conducive to a healthy flue-cured tobacco industry. Mingled with these beliefs, particularly on the part of growers, both member and independent, may be fears of what might happen if the present arrangements were changed or if anything was done which would place the individual in an unfavourable position for the sale of his crop. It is logical, both on the part of the buyer members and the grower members, to reason that control of production and negotiations on price can and do reduce market uncertainties and therefore are desirable in so far as both types of members are concerned. In so far as the grower members are concerned, it means that with the current technology of tobacco production they can produce a fairly stable output, and if they receive an adequate price over a period of time they can continue to make a favourable income from tobacco production. In so far as the buyer members are concerned, they are interested in a continuous flow of good quality tobacco to meet their domestic requirements and export demands. The elimination, or at least reduction, of uncertainties in production through acreage control by the Association combined with stability in price, are considered in the industry as conducive to the attainment of these goals. Fear, on the other hand, in so far as grower members and non-members are concerned, also plays an important part. There is the fear that if the Association was destroyed the same situation would develop currently as existed in the early 1930's when prices fluctuated very widely to the disadvantage of the grower.

If the grower is a member he realizes that he may be liable to financial loss if he does not comply with the regulations and he wants to remain in good standing because his income depends upon his good relations with the Association. If he is an independent grower he fears that he may not ultimately get membership in the Association and thus his whole economic welfare may be affected. There also appears to be a fear among some sections of both grower members and non-members that the sale of their crop is not dependent upon its quality but upon the goodwill of buyers and that therefore they should not take any action which would bring unfavourable attention. These fears tend to restrict members and non-members in their activities in any effort to change the present arrangement of the Association, or even to oppose the opinions of either buyers or some grower directors on the Board.

This, at least, is the attitude indicated in the evidence of some growers. One witness who had gone around seeking signatures to a petition to bring the marketing arrangements under provincial legislation stated that, although he believed many growers were not opposed, he thought that they did not want to be linked with the proposal. He said:

"THE WITNESS:

They were afraid, just like I am at the present time. I

am afraid of coming out with full details on anything like this.

BY MR. ORR:

Q. Why are you afraid?

A. Well, if information that might be contrary that I might give--if it reaches the proper authorities, well, I might suffer.

BY THE CHAIRMAN:

Q. In what way? You are not a member of the Association, are you? In what way would you suffer?

A. Well, I might not sell my tobacco.

Q. You are afraid that that is a possibility, are you?

A. I think that is a possibility all over the tobacco area.

Q. Does that apply particularly to people who are non-members?

A. I don't think particularly to people who are non-members as it applies to everybody that is in the tobacco industry.
... "(1)

A similar attitude was indicated in other evidence in the inquiry. (2)

Evidence of actual buying operations in recent years relating to the purchase of member crops and non-member crops does not disclose any cases of discrimination which would give rise to such fears. The fact is that with the increasing domestic consumption of tobacco and the improved quality of Canadian tobacco which has encouraged domestic manufacturers to increase the proportions which they use until practically all Canadian tobacco products are made from domestic tobacco, Canadian tobacco growers would appear to have little reason to fear the prospect of not being able to find buyers for their crops. However, to the individual grower this remains a real problem because many apparently feel that if they displease the

(1) Evidence, pp. 364-65.

(2) Evidence, pp. 312; 410-12.

Board of Directors, particularly the buyers, in any way they may very well have difficulty in selling their crops.

Witnesses from the buying companies disclaimed any discrimination in their dealings with individual growers, whether members or non-members, and, as already pointed out, the evidence does not suggest any actions of this kind. The buyers suggested that the fear of not selling a crop was primarily a psychological one. As one buyer put it, referring to the alleged disadvantage of the independent growers:

" . . . I think in all fairness it may be, shall we say, a theoretical mental anguish for a few days by the fact of not selling tobacco at the same time. . ."(1)

The fact, however, remains that fear for his welfare by a member, as well as the independent grower, plays an important part in so far as the relationship of these growers to the Association is concerned. It is possible that changes in the arrangements of the Association would be made more readily if this fear was not present.

(1) Hearing, p. 240.

CHAPTER VI

SALE OF CANADIAN FLUE-CURED TOBACCO IN DOMESTIC AND EXPORT MARKETS COMPARED WITH TRADE OR OTHER PRINCIPAL PRODUCERS

1. Yearly Income of Farmers from Flue-Cured Tobacco

One of the objectives of the Association has been to attempt to maintain a stable level of production of flue-cured tobacco in relation to anticipated demand in domestic and export markets with the aim of avoiding wide fluctuations from year to year in the incomes received by members from the sale of their tobacco crops. The data given in Table 2 show that since the inception of the Association fluctuations in price from year to year in almost all instances have been relatively small and that the trend in prices has been upward. The production figures for the periods shown in Table 15 suggest that a considerable degree of stability has been attained in so far as output is concerned when crops are averaged over several years. However the Association has not been nearly so successful in stabilizing the yearly returns to its members as variations in size of crops combined with a relatively stable price have necessarily resulted in varying total returns.

The trend in total revenue from flue-cured tobacco to members of the Association and to other producers in Canada has been upward over the years but the rate of increase has been a varying one. This is partly explained by the variation in yields already mentioned but it also appears to result from the determination of prices under the Association arrangements. It might have been expected that with the over-all increase in demand for tobacco, domestic and export, resulting from higher personal incomes and consequent increase in per capita consumption of cigarettes (especially with the inelastic demand which exists for tobacco), the result of controlled acreage and output of Canadian flue-cured tobacco farms would be a more uniform increase in gross revenue than appears to have been achieved. As already suggested part of the answer may lie in the level of prices prevailing for Canadian flue-cured tobacco.

The evidence does not show the actual value of tobacco sold by Association members in each year but as the total output of Association farms formed such a large part of the total production in Ontario throughout the years the average value per pound of the total crop must closely approximate the average for the crops of member farms. For example, the average farm price in 1955 as reported

by the Dominion Bureau of Statistics was 45.48 cents per pound, while The Canadian Tobacco Grower in its issue of August, 1956 reported that the Chairman of the Association had informed the annual meeting that the average price was 46.06 cents. Table 16 shows the average revenue per member farm based on the average farm price for the year.

Table 16 - Tobacco, Flue-Cured: Average Revenue per Association Member Farm, 1946-1955

Year	Average Farm Price (Including Payments for Grading and Tying)*	No. of M.A. lbs. Sold	No. of M.A. Farms	Value of M. A. Crops	Average Revenue per M.A. Farm
1946	38.17	109,059,987	2,833	\$41,628,198.18	\$14,694.03
1947	38.84	82,059,766	3,123	31,872,014.67	10,205.67
1948	44.70	97,416,685	3,447	43,545,260.43	12,632.80
1949	44.25	113,196,312	3,566	50,089,367.18	14,046.37
1950	46.72	102,520,956	3,557	47,897,792.51	13,465.78
1951	46.37	138,229,649	3,556	64,097,088.71	18,025.05
1952	43.61	124,042,955	3,596	54,095,134.86	15,043.14
1953	45.77	123,166,695	3,638	56,382,552.59	15,498.23
1954	45.21	160,846,112	3,571	72,718,526.33	20,363.63
1955	47.48	101,000,000**	3,564	47,954,800.00	13,455.33

* Additional payments to growers for grading and tying were:

1943, 1-1/4 cents; 1944 to 1947, 1-1/2 cents; 1948 to 1955, 2 cents.

** Reported in The Canadian Tobacco Grower, August, 1956, p. 34.

Sources: Exhibit H-1
Exhibit H-4

2. The Export Situation

As Canadian flue-cured tobacco has been sold both domestically and for export it is of interest to compare the trend of prices for Canadian flue-cured tobacco with the prices prevailing for flue-cured tobacco in the United States and in Southern Rhodesia, which are large exporters.

Tables 17 and 19 present some price data for the three countries. The Canadian prices in these tables cannot be compared directly because of the differing methods of sale in the three countries. Canadian prices are on the basis of barn buying, whereas those in the United States and Southern Rhodesia are on the basis of auction buying.

Table 17 - Tobacco, Flue-Cured: Average Price Received by Farmers in Canada and the United States and at Auctions in Southern Rhodesia, 1936-1955

Year	Canada (Canadian Cents per lb.)	United States (U.S. Cents per lb.)	S. Rhodesia
1936	29.30	22.2	14.8
1937	27.30	23.0	20.9
1938	22.65	22.2	21.9
1939	20.30	14.9	19.7
1940	20.80	16.4	20.9
1941	22.80	28.1	26.3
1942	26.50	38.4	25.4
1943	30.20*	40.2	30.4
1944	30.74*	42.4	36.6
1945	34.90*	43.6	33.6
1946	36.67*	48.3	54.4
1947	37.34*	41.2	49.0
1948	42.70*	49.6	54.8
1949	42.25*	47.2	49.0
1950	44.72*	54.7	44.0
1951	44.37*	52.4	40.4
1952	41.61*	50.3	50.1
1953	43.77*	52.8	46.4
1954	43.21*	52.7	44.8
1955	45.48*	52.8	47.6

* Additional payments for grading and tying were made to growers as follows: 1943 - 1-1/4¢; 1944 to 1947, 1-1/2¢; 1948 to 1955, 2¢, all per pound.

Note: Canadian prices not adjusted for exchange differences with U.S.

Sources: Canada D.B.S., Reference Papers 1950, No. 1, Historical Series of Tobacco Statistics, and Quarterly Stocks and Consumption of Unmanufactured Tobacco; Southern Rhodesia, F.A.O. Yearbook of Food and Agricultural Statistics, Vol. IX Part 1, 1955, p. 271, table 129, F.A.O. Monthly Bulletin of Agricultural Economics and Statistics, Vol. V, No. 5, May, 1956, p. 15, converted from kilograms to pounds; for the United States, 1936 to 1945, F.A.O. Commodity Series, Bulletin No. 20, October 1952, Tobacco, Table 2, p. 43; for 1946 to 1955, United States Department of Agriculture, Agricultural Marketing Service, The Tobacco Situation, June 10, 1954 and March 28, 1956.

Canadian prices in Table 17 are also given in Canadian currency while those for the United States and Southern Rhodesia are in U.S. funds. It should be borne in mind that there have been substantial exchange differences in the post-war and other periods as Table 18 shows.

Table 18 — Price of United States Dollar in Canada,
1936-1955

<u>Year</u>	<u>Canadian Cents per U.S. Dollar</u>
1936	99.91
1937	100.00
1938	99.42
1939	96.71
1940	90.91
1941	90.91
1942	90.91
1943	90.91
1944	90.91
1945	90.91
1946	95.20
1947	100.00
1948	100.00
1949	97.49
1950	108.92
1951	105.28
1952	97.89
1953	98.34
1954	97.32
1955	98.63

Source: Bank of Canada, Statistical Summary, Annual
Financial Supplement.

Table 19 is an attempt to express prices on a common currency basis and in terms of return to the grower. The same observations as to differences in methods of tobacco purchase apply to this table as to Table 17. It will be noted that prices in all three countries in recent years tend to reflect the stabilizing factors which have been introduced by the methods of market control which have been operating in the three countries. The nature of the system of market control has been different in each country but stability of price has been a major objective in each case.

Table 19 - Tobacco, Flue-Cured: Prices Paid to Growers, Canada, United States and Southern Rhodesia, average 1946-1950 and annually 1951-1955

Year	Canada	U.S.A.	S. Rhodesia
	U.S. dollars	per kilogram	
1946-50	0.90	1.06	1.05
1951	0.97	1.16	0.88
1952	0.92	1.11	1.10
1953	0.96	1.16	1.03
1954	0.93	1.16	0.99
1955	1.02	1.16	1.05

Source: F.A.O. Monthly Bulletin of Agricultural Economics and Statistics, Vol. V, No. 5, May, 1956, page 15.

On the whole it would appear that the year-to-year changes in Canadian prices have not been as great as in the case of the other two countries. In view of the year-to-year fluctuations in the production of flue-cured tobacco in Ontario, as shown in Table 2, one would expect a greater degree of variation in the year-to-year price changes. The fact that the price changes in Canada have been so limited suggests that the system of price-negotiation under the Association arrangements has had a dampening effect upon price movements.

The evidence in the inquiry is to the effect that Canadian flue-cured tobacco is equal in quality to that produced in the United States ⁽¹⁾ and superior to that produced in Southern Rhodesia. ⁽²⁾

With respect to the Canadian market, there is a substantial tariff against the importation of tobacco leaf which would compete with Canadian flue-cured tobaccos for cigarette purposes. ⁽³⁾ This provides Canadian tobacco growers with a protected market in Canada for their product. On the foreign market the costs of delivering Canadian tobacco to the main export market, which is the United Kingdom, should be lower than those for Southern Rhodesia and perhaps for the United States because of the shorter sea haul from Montreal to British ports.

(1) Evidence, p. 470; p. 516, Hearing pp. 31-32.

(2) Evidence, p. 426; p. 515.

(3) The importation of unmanufactured tobacco became subject to tariff duties in 1936 when rates ranging from 20 cents to 40 cents per pound for unstemmed and 30 cents to 60 cents per pound for stemmed under the different tariff columns were applied to classes of tobacco including flue-cured. These rates remained unchanged until 1948 when rates of 20 cents per pound for unstemmed and 30 cents per pound for stemmed were established under GATT.

These facts suggest that it could be expected, if all other factors were equal, that prices received by Canadian tobacco growers would closely approximate those received by growers in competing countries. However, differences exist and the evidence in the inquiry suggests several explanations for these in addition to those already mentioned.⁽¹⁾ One of these may be found in the export situation with respect to Canadian flue-cured tobacco. Table 20 shows the exports of flue-cured tobacco from Canada and the United States to the United Kingdom and to all countries in specified periods since 1934.

(1) The general manager of one buying company which sells in the export as well as in the domestic market gave the following evidence:

"A. I will say this, that we cannot get as much money for our tobacco, for instance, in England or in any other country as the United States can for theirs, grade for grade.

BY MR. ORR:

Q. Is that in part because of the established acceptance of the United States tobacco?

A. It is due to two things, in my opinion. One is that U.S. tobacco has been established the world over as the leader and practically all countries use U.S. tobacco as a base for manufacture. Secondly, our production here is such that we will never be able to compete with the United States and there are very few countries that we can guarantee a supply to year in and year out. Those are the two reasons."

(Evidence p. 473)

Table 20 - Tobacco, Flue-Cured: Exports from Canada and the United States, Specified Periods, 1934-1955

Year	Exports to the U.K. by:		Exports to All Countries by:	
	Canada	U. S. A.	Canada	U. S. A.
	- - - - -	- - '000,000 lb.	- - - - -	- - - - -
1934-38	6.8	192	6.9	325
1948-50	12.6	154	16.2	369
1951	22.6	208	28.3	434
1952	31.0	62	37.3	319
1953	22.2	172	27.3	444
1954	24.4	157	30.9	375
1955	37.8	(1)	45.5	455

(1) Data not available.

Sources: Canada, D. B. S., Trade of Canada; for the United States, for exports to United Kingdom 1934-35, United States Department of Agriculture, Agricultural Statistics, 1938, p. 448; for exports to United Kingdom 1939-1953, Annual Statement of Trade of the United Kingdom with Commonwealth Countries and Foreign Countries; for exports to all countries, United States Department of Agriculture, Agricultural Marketing Service, The Tobacco Situation, June, 1954 and March 28, 1956.

The bulk of the imports of tobacco into the United Kingdom consists of flue-cured tobacco, so that total import figures reflect, in large measure, imports of flue-cured tobacco. Table 21 shows total imports of tobacco into the United Kingdom by principal supplying countries.

Table 21 - Tobacco, Unmanufactured: Imports into the United Kingdom from Major Sources, average 1935-1939 and annually 1947-1955

Period	United States	Rhodesia and Nyasaland	India	Canada	Turkey	Greece	Other	Total
Average 1935-1939	200.8	28.1	19.6	14.3	0.6	0.6	5.2	269.2
1947	201.2	34.9	22.9	22.2	0.4	10.5	3.5	295.6
1948	172.4	58.0	22.8	12.7	10.2	0.1	4.6	280.8
1949	154.1	64.2	38.4	13.0	20.0	5.8	5.7	301.2
1950	143.7	78.5	48.1	15.8	10.8	1.0	7.9	305.8
1951	212.0	66.5	40.1	21.6	3.2	1.3	10.2	354.9
1952	66.8	70.2	38.3	32.7	0.6	1.2	13.9	223.7
1953	174.2	68.2	31.4	24.1	2.4	0.8	14.7	315.8
1954	159.7	76.8	36.2	24.9	2.8	1.4	10.7	312.5
1955*	178.7	72.1	36.4	40.0	3.1	1.5	12.6	344.4
Percentage Distribution								
	%	%	%	%	%	%	%	%
Average 1935-39	74.7	10.4	7.3	5.3	0.2	0.2	1.9	100.0
1947	68.1	11.8	7.7	7.5	0.1	3.6	1.2	100.0
1948	61.5	20.7	8.1	4.5	3.6	--	1.6	100.0
1949	51.3	21.3	12.7	4.3	6.6	1.9	1.9	100.0
1950	47.0	25.7	15.7	5.2	3.5	0.3	2.6	100.0
1951	59.7	18.7	11.3	6.1	0.9	0.4	2.9	100.0
1952	29.9	31.4	17.1	14.6	0.3	0.5	6.2	100.0
1953	55.2	21.6	9.9	7.6	0.8	0.3	4.6	100.0
1954	51.1	24.6	11.6	8.0	0.9	0.4	3.4	100.0
1955	51.9	20.9	10.6	11.6	0.9	0.4	3.7	100.0

* Preliminary

Source: United States Department of Agriculture, Agricultural Marketing Service, The Tobacco Situation, March 28, 1956.

A significant feature about the export of flue-cured tobacco from Southern Rhodesia has been the extent to which markets have been found in countries other than the United Kingdom. Table 22 shows exports of Canadian and Southern Rhodesian flue-cured tobacco to the United Kingdom and other countries in the years 1950 to 1954 compared with average exports in the period 1935-39.

Table 22 - Tobacco, Flue-Cured: Exports to the United Kingdom and Other Countries, Canada and Southern Rhodesia, average 1935-1939 and annually 1950-1954

	Average 1935-39	1950	1951	1952	1953	1954
	- - - -	- - - -	'000 lb. - - - -		- - - -	- - - -
Canada						
United Kingdom	11,745	14,612	22,593	30,990	22,244	24,351
Other Countries	94	5,058	5,717	6,296	5,021	6,527
Total	11,839	19,670	28,310	37,286	27,265	30,878
Southern Rhodesia						
United Kingdom	14,262	60,303	42,752	55,048	52,945	61,619
Other Countries	3,711	27,712	24,275	32,898	27,509	39,190
Total	17,973	88,015	67,027	87,946	80,454	100,809

Source: United States Department of Agriculture, Agricultural Marketing Service, Annual Report on Tobacco Statistics, 1955, p. 69.

It will be noted that in 1954 Southern Rhodesia exported almost 40 million pounds to countries other than the United Kingdom while exports of Canadian flue-cured tobacco to other countries amounted to less than 7 million pounds. Included in the exports from Southern Rhodesia in that year were shipments of about 16 million pounds to continental Europe.

It will be noted from Tables 20 and 21 that our exports to the United Kingdom, as well as our total exports of flue-cured tobacco, have fluctuated considerably over the years. The British market, which is the major world market for tobacco, has been an expanding one and while the Canadian proportion has expanded somewhat there have been no substantial increases except in 1952 and 1955. The increase in the former year occurred when American exports declined considerably, but the increase in 1955 accompanied an increase in American exports.

The changes in Canadian exports shown by Tables 20 and 21 suggest that Canadian overseas shipments of tobacco are residual in relation to the Canadian market and also in relation to the markets in

the principal importing countries, particularly the United Kingdom. The relatively slow rate of expansion of our exports to the United Kingdom is often explained in terms of reliability of supply. Tobacco manufacturers are slow to change over from one type of tobacco to another for fear of disturbing consumer acceptance of their brands, and are particularly anxious to avoid any abrupt change in tobacco content which would be noticeable to consumers. Before changing from one type of tobacco to another, therefore, a manufacturer will want to be assured of a continuous and increasing supply of the raw material. The moderate increase of tobacco production in Canada and particularly the variations in the quantities available for export have not created that assurance for the British importer of a continuous and increasing supply of the Canadian raw material. Therefore he has tended to continue to buy his supplies from areas where he feels the quantities of the types of tobacco he requires are more assured. The United States has been the traditional market for British manufacturers and the large production of Virginia type tobacco in the United States has given the assurance, in normal times, of a continuous supply of the grades desired.

In the post-war period the problem of foreign exchange has been an additional factor affecting export trade in tobacco. Sales of tobacco could be made by Southern Rhodesia to the United Kingdom on a sterling basis whereas purchases from Canada would be made in hard currency. In the last few years the United States has made provision to supply certain agricultural commodities and accept payment in the domestic currency of the receiving country. In 1955, out of 539 million pounds of tobacco exported from the United States, approximately 42 million pounds consisted of shipments on this basis. The shipments to the United Kingdom in 1954 were 132 million pounds on a regular basis and 18 million pounds on the special basis, and in 1955 the shipments in each class were 161.3 million pounds and 21.4 million pounds respectively. (1)

Which of the factors, reliance on traditional markets, lack of assurance of a continuous supply or problem of dealing in hard currency, is the most influential in determining the export price of Canadian tobacco, cannot be established, and it must also be recognized that inter-company relationships between manufacturing and buying companies in the United Kingdom, Canada and the United States may be expected to assist in maintaining stability in the export prices of Canadian flue-cured tobacco in relation to the price prevailing on the domestic market. In whatever ways these various factors come to bear, it is evident that the export price of Canadian tobacco for shipment to the United Kingdom has been lower in recent years than the export prices of American and Rhodesian tobacco. Table 23 shows the average value in sterling of unstripped flue-cured tobacco imported into the United Kingdom from Canada, Southern Rhodesia and the United States.

(1) United States Department of Agriculture, Agricultural Market-
ing Service, The Tobacco Situation, March 28, 1956.

Table 23 - Tobacco, Flue-Cured: Unstripped Leaf*, Average Value of Imports into United Kingdom, 1937-1939 and 1946-1955

Year	Canada	S. Rhodesia	U.S.A.
	— pence per lb., exclusive of duty —		
1937	18.9	13.4	15.9
1938	18.2	14.8	15.9
1939	17.5	13.9	14.7
1946	29.4	41.3	36.8
1947	33.6	48.3	35.8
1948	32.8	44.3	33.8
1949	38.4	47.2	41.4
1950	44.0	52.4	55.3
1951	50.5	57.4	58.6
1952	52.5	62.3	60.2
1953	52.6	62.6	61.8
1954	53.2	62.0	62.9
1955	54.9	64.7**	61.9

* Light, 1937-38
Flue-Cured, 1939-55

** Federation of Rhodesia and Nyasaland

Source: The Commonwealth Economic Committee, Intelligence Branch, Tobacco Intelligence, Vol. 8, No. 1, February, 1956, p. 7.

If values are computed from the export statistics of Canada and the United States, similar differences are found in recent years, as shown in Table 24. It should be borne in mind that in this table values are expressed in national currencies without correction for differences in exchange rates.

Table 24 - Tobacco, Flue-Cured: Value per Pound of Exports to All Countries, Canada and the United States, 1946-1955

Calendar Year	Canada	United States
	Average, all Countries cents per pound (Canadian currency)	Average, all Countries cents per pound (U.S. currency)
1946	48.06	56.45
1947	52.03	55.00
1948	51.65	51.22
1949	56.10	51.09
1950	49.84	53.50
1951	56.79	64.52
1952	58.34	63.14
1953	55.76	66.80
1954	57.33	68.90
1955	57.25	67.26

Sources: D.B.S., Trade of Canada; United States Department of Agriculture, Production and Marketing Administration, Annual Report on Tobacco Statistics, 1950, 1951, 1952, 1953, 1954, 1955.

If Canadian flue-cured tobacco commands a lower export price because Canadian growers regard exports as a residual factor in relation to the domestic market and the price of exports as incidental to the domestic price, and if overseas buyers, on the other hand, recognizing the unreliability of the supply from Canada, regard the Canadian offerings as a matter of less importance in the over-all supply and thus pay a lower price for Canadian tobacco, there may be reason to believe that a larger and expanding export supply of flue-cured tobacco from Canada might result in the price of Canadian tobacco on world markets equalling that of similar products from other countries.⁽¹⁾

3. Domestic Supply

The analysis which has been made in the preceding sections of annual returns from the sale of flue-cured tobacco and the export situation raises a question whether sufficient attention has been given by the Association to the maximization of the gross revenue and ultimately of the net revenue of the farmer in the determination of the acreage and total output to be produced and in the settling of the

(1) It may be noted that Canadian flue-cured tobacco is imported into the United Kingdom under preferential tariff rates.

price for the crop. In a free market the former is the result of the individual decisions of many producers as to the amount of acreage they will devote to a particular crop and the latter is the result of the interplay of supply and demand factors, both domestic and export. Under the arrangements developed by the Association these factors, apart from the vagaries produced by the weather, have become subject to group decision and negotiation. It is to be expected that even though the Association may not emphasize the production of an output that will ensure continuous and increasing supplies for the export market, it will make every effort to ensure such a supply for the requirements of domestic manufacturers. That this is so is indicated in Table 25.

Table 25 - Tobacco, Flue-Cured: Total Stocks of Unmanufactured Tobacco, March 31; Total Annual Exports and Ratio of Exports to Stocks March 31, Canada, 1945-1955

Year	Total Production	Total Stocks Unmanufactured March 31	Total Exports	% Exports of Stocks
		'000 lb.		
1945	75,353	95,992	13,481	14
1946	119,027	102,900	10,965	11
1947	86,863	129,549	22,989	18
1948	102,442	126,781	14,805	12
1949	116,668	140,878	14,018	10
1950	108,202	155,247	19,670	13
1951	144,055	151,624*	28,310	19
1952	131,965	175,876*	37,286	21
1953	132,352	191,624*	27,265	14
1954	173,159	189,001*	30,878	16
1955	118,206	203,513*	45,535	22

* Revised July, 1955

Source: D.B.S., Reference Papers, 1950, Historical Series of Tobacco Statistics; D.B.S., Quarterly Stocks and Consumption of Unmanufactured Tobacco, March, 1956; D.B.S., Trade of Canada.

It will be observed that in the period since 1945 the total stocks of unmanufactured tobacco as of March 31st (this is the point of largest inventory in Canada) have increased from 96 million pounds in 1945 to 203.6 million pounds in 1955. A similar situation is shown by the figures for stocks on September 30th, which is the time immediately prior to the receipt of tobacco from the current year's crop.

Table 26 - Tobacco, Flue-Cured: Total Production, Stocks of Domestic Leaf on Hand, Amount of Domestic Leaf Taken for Manufacture and Duration, Crop Year Basis, Canada, 1945-1955

Year	Total Production (Green wt.)	Stocks unmd. Sept. 30	Taken for mfr. (redried leaf*)	Duration Months
	'000 lb.			
1945	75,353	76,859	63,838	14.4
1946	119,027	76,540	61,022	15.1
1947	86,863	98,155	61,672	19.1
1948	102,442	94,421	65,524	17.3
1949	116,668	101,421	69,832	17.4
1950	108,202	113,878	72,760	18.8
1951	144,055	117,741	67,900	20.8
1952	131,965	128,296	81,103	19.0
1953	132,352	140,129	86,087	19.5
1954	173,159	140,419	87,561	19.2
1955	118,206	150,609	93,006	19.4

* Redried weight is 90% of green weight.

Note - September 30 is just before new crop starts moving in.

Sources: D.B.S., Quarterly Stocks and Consumption of Unmanufactured Tobacco, March, 1956; D.B.S. Reference Papers, 1950, Historical Series of Tobacco Statistics.

In 1945 stocks on hand on September 30th amounted to 76.8 million pounds. This total has increased fairly consistently and on September 30, 1955 amounted to 150.6 million pounds. Processors and manufacturers are concerned about a continuous and increasing supply of the raw product to meet the demand domestically of an increasing population and increasing consumption per capita. The assurance of an adequate supply for domestic requirements appears to have been achieved, as already indicated, by having exports constitute a residual factor. It will be seen that there is a very strong correlation between the size of exports each year with the size of the production the year previous. In other words a high production one year is followed by a higher export the following year. The sequence is not invariable as a different pattern is evident in some years. For example, 1950 production was low but 1951 exports were high. This, of course, may have been influenced by the large crop coming up in 1951 ensuring for the domestic users an adequate supply for the future. That exports are related primarily to production and not to stocks on hand is indicated in Table 25 by the percentage of exports as compared to stocks. This figure, it will be noted, is a widely fluctuating one and

shows no pattern in so far as stocks are concerned.

It is a recognized fact in the tobacco industry that to produce a good quality manufactured tobacco product tobacco must be properly "aged". This means holding the tobacco in storage for a period of time to permit certain chemical actions to take place in the leaf which improve its quality for smoking purposes. Various witnesses in the inquiry suggested that tobacco should be kept from 18 to 30 months before it is used for manufacturing purposes. The longer period is apparently generally accepted in the United States according to statements of tobacco manufacturers in that country. (1) In fact, the American manufacturers believe that leaf must be stored for two to two and a half years to "have the mellowness, ripeness and flavor that you want to put in a domestic cigarette." (2) That this belief was put into practice in the United States is shown in statistics presented in the study cited which indicate that the ratio of actual leaf supply to annual disappearance for one of the large tobacco companies ranged from 2.53 to 3.35. In other words, tobacco was held in stock by this company from 2-1/2 to 3-1/3 years. (3)

In Canadian statistical reports the relationship between the quantity of tobacco taken for manufacture and the amount of stocks of unmanufactured tobacco on hand is referred to as "duration" of stocks. Table 26 shows that since 1945 the highest rate of duration of Canadian flue-cured tobacco stocks has been 20.8 months, and that in the last four years the duration of stocks has been between 19 and 19-1/2 months. The low figure of 14.4 months which is shown for 1945 may be explained in terms of a sharply increased demand for manufactured tobacco due to war conditions.

The Dominion Bureau of Statistics also publishes figures for the duration of "old leaf" stocks of tobacco taken for manufacture each year. These duration figures in the years from 1950 on have ranged between 15.8 months and 16.7 months. The Vice-President of Imperial Leaf Tobacco Company of Canada Limited stated in evidence that his company plans to carry from 30 to 36 months' supply of tobacco, including what is purchased from the current crop. He also said that the manufacturing company likes to use tobacco not less than a year and a half old and it does not like to keep it more than three years because of the cost of storing and the fact that the tobacco, while remaining perfectly usable, becomes darker in colour. (4)

(1) W. H. Nicholls, Price Policies in the Cigarette Industry, Venderbilt University Press, 1951, p. 241.

(2) *ibid.*, p. 241

(3) *ibid.*, Table 61, p. 245

(4) Evidence, pp. 432-33.

It will be evident from the figures for duration covering the entire Canadian tobacco industry that inventories of flue-cured tobacco carried in Canada are below the levels which are considered most appropriate in the United States, and presumably also in Canada, for the highest quality tobacco. Certainly they are below the levels stated by the Vice-President of Imperial Leaf Tobacco Company of Canada Limited to be the objective of his company. It may be that because of the assurance afforded by the marketing control of Ontario flue-cured tobacco Canadian manufacturers as a whole have been content to keep their inventories of flue-cured tobacco at a minimum level. If a more active export demand for Canadian flue-cured tobacco developed, Canadian manufacturers, as a whole, might find it more advantageous to increase inventories toward the higher levels indicated above. Such a development, of course, would encourage increased acreage and production of tobacco during the period inventories were being accumulated, and would provide larger quantities for export after Canadian requirements had been met.

As has already been indicated, consumption of tobacco in Canada has been increasing over the years. This is shown in Table 26 by the steady increase in the amount of redried leaf taken for manufacturing purposes since the war. In this period the amount has risen from 64 million pounds in 1945 to 93 million pounds in 1955. Figures in Table 27, showing the consumption of cigarettes in Canada in the years since the war compared with pre-war periods, indicate more strikingly the great increase in cigarette use resulting from greater population and greater use per capita. In the immediate pre-war period 6.3 billion cigarettes were produced annually in Canada. By 1954 the total was 22.1 billion cigarettes. Among the factors contributing to the increased use of cigarettes has undoubtedly been the higher personal incomes of consumers but it may be assumed that a larger proportion of the population than before the war is now smoking cigarettes.

Table 27 - Cigarettes: Withdrawals for Consumption in Canada and per Capita Consumption, Canada and the United States, 5-year average 1930-1934; 1935-1939 and annually 1945-1955

Period	Canada Total Cigarettes Withdrawn ⁽¹⁾ — 000,000's —	Per Capita Consumption		
		Canada	United States	
		Total Population ⁽²⁾	Population 15 Years or Over ⁽³⁾	
Av. 1930-34	4,484	426	916	1279
1935-39	6,320	566	1214	1641
1945	14,265	1255	2020	2734
1946	14,867	1209	2310	3058
1947	15,143	1204	2360	3131
1948	15,853	1230	2390	3216
1949	16,840	1250	2370	3210
1950	17,168	1240	2390	3250
1951	15,667	1118		3408
1952	17,848	1237		3509
1953	21,001	1421		3413
1954	22,113	1455		3216
1955	24,576	1575		3302

Sources: (1) D.B.S., Quarterly Stocks and Consumption of Unmanufactured Tobacco

(2) F.A.O. Commodity Series, Bulletin No. 20, October, 1952, Tobacco

(3) United States Department of Agriculture, Agricultural Marketing Service, Annual Report on Tobacco Statistics, 1955.

Compared to the immediate pre-war period current consumption of cigarettes per capita in Canada has increased over three times. This of course is not a unique situation. A similar, though not as high an increase, has occurred in cigarette consumption per capita in the United States, as will also be seen from Table 27, and available data for other countries in the world reflect the same situation. According to the United Nations Statistical Yearbook 1955 the total world production of cigarettes rose from 545 thousand million cigarettes in 1937 to 968 thousand million in 1949 and to 1,174 thousand million in 1954.

CHAPTER VII

FURTHER REVIEW OF PRICING AND BUYING ARRANGEMENTS FOR FLUE-CURED TOBACCO

1. Method of Buying

The production and marketing of the Ontario flue-cured tobacco crop is regulated by the Association in the manner described in earlier chapters. A minimum average price is arrived at by negotiation through the Market Appraisal Committee usually in October or when the crop is about ready for delivery. This is a price which buyers are obligated to pay in the aggregate for that portion of the current crop provided for in the current purchasing order but buyers are not obliged to pay this price when purchasing any particular crop.

The Market Appraisal Committee is not tied to any formula in arriving at the minimum average price. Some indication of the manner in which this price is agreed upon in the Committee has already been given but the evidence does not provide any clear description of the way in which different factors were assessed or the actual basis on which the price in any year was established. It appears that the members of the Committee take into account the total current crop that has been produced in the province, the current and anticipated domestic demand for tobacco and the demand from overseas markets for tobacco. It may be assumed that consideration would be given to the current level of personal income, and the prices prevailing in the United States and perhaps Southern Rhodesia. The clearest fact which emerges from the evidence as a whole is that the price is arrived at by a system of bargaining between buyer representatives on the one hand and grower representatives on the other with both parties desirous of avoiding an impasse. It appears that the grower representatives start at a high level of prices and the buyer representatives start at a low level of prices and after a period of several days or perhaps even a week of negotiation they will arrive by concessions on both sides at a price that is acceptable to all members of the Committee. There is provision in the by-laws of the Association with respect to this Committee that if an agreement cannot be reached within the Committee on the current minimum average price, the matter shall be referred to a referee. The evidence discloses, however, that such action has not been favoured and would likely be opposed by the buyer representatives. In fact, in one year, 1944, as already mentioned, when an agreement could not be reached marketing was conducted without a minimum price being established rather than having the matter referred to a referee as provided in the arrangement.

The price thus agreed upon by the Committee is accepted by the Board which then determines the period during which this average price shall be operative. This is either the time elapsing before a stated percentage of the total crop of producer members is purchased or a period terminating on a fixed date, whichever is shorter. For this quantity of the crop the buyers are obliged to pay in the aggregate at least this minimum price.

Both the Association and the buyers themselves survey the current crop during the growing and harvesting season. The Association does this in an attempt to make estimates of the current production and the quantities of different grades of the crop. The following description of the procedure followed by the Association is given in the Statement of Evidence:

"114. Some time before the market opens, which is usually at the beginning of November, a cross-section of members' crops is inspected under the Board's direction, to provide for the Market Appraisal Committee an estimate both of the quantity and quality of the total crop harvested by members. Quality is measured, for this purpose, according to grade definitions for flue-cured tobacco which definitions form part of the Association's By-laws. By-law 54 of the Association sets out relative values for the respective grades. The relative value of the crop as a whole is estimated by multiplying the number of pounds of each grade in the sample surveyed by the respective grade values, adding the results, and dividing the total product by the total number of pounds in the sample. The average quality of the crop may then be compared with that for a previous year by reference to the relative values of the crops so derived."

The buyers survey the crop in order to familiarize themselves with the quality and amounts of individual crops so that they may endeavour to make desired purchases during the current buying season. Thus when the market date is established by the Association the buyers can proceed to make their offers. Buying is done on an individual basis between the buyer and the seller and the purchase of the total crop of each farmer is carried out by the barn-buying method. This is a method whereby the buyer visits the packbarn of each farmer and deals with him in privacy in so far as the purchase of the crop is concerned.

Without going into a detailed description of the actual procedures of buying, some comment may be made on several features involved in the buying operations. There is no obligation on the part of the buyers to buy any of the crop of any grower. While there is an obligation on the part of the buyers as members of the Association to purchase tobacco under the terms of the arrangement they could delay

the purchase of a large proportion of their requirements until the expiry of the market period. Of course if this were done on any scale the continuance of the arrangements would undoubtedly be placed in jeopardy as the assurance which growers place in the Association would be weakened. Nothing of this nature has happened in recent years presumably, for one reason, that the minimum price set has been found satisfactory by the buyers. It might be added that while the price agreed upon is only intended as a guiding price, in practice as appears from Table 8, it has closely approximated the average of the prices finally agreed upon for each lot in direct negotiation between grower and buyer.

2. Grading of Flue-Cured Tobacco

The system of relative grades originally set up by the Association in 1936 for the purpose of determining the distribution of the minimum price among grades is still in effect. However, the buyers do not buy on the basis of this system of grades. Rather they have their own grades in terms of their own requirements for export and for domestic manufacturers, which they use in valuing the tobacco that they purchase. Consequently the Association system of grades is of little value to the grower in ascertaining the value of his crop. Farmers claim that buyers will pay different prices for what seems to be the same quality crop according to the grades set out by the Association, even in as short a period as a few hours. Buyers explain this in terms of the complex nature of tobacco buying and price changes in the market. Furthermore, evidence seems to indicate that there is a tendency for buyers to pay a lower price for the higher grades than their quality would appear to justify and conversely a higher price for the lower grades of tobacco.⁽¹⁾ The suggestion seems to be that in buying individual crops the buyers think in terms of the over-all cost to them of the tobacco and tend to adjust their prices towards meeting the minimum average price set by the Committee. If this is true, and it appears as a complaint by growers, then it tends to penalize producers of quality crops to the advantage of the producers of the poorer crops. The Statement of Evidence makes the following reference to the system of grading:

"168. For one thing, the Association has lost an advantage achieved by growers in the early 'thirties, whereby the grower was assisted in determining the market value of his crop. It will be recalled that the crops of individual growers are bought as units. While each crop will be made up of varying quantities of a number of grades, the price to the grower is quoted in terms of cents per pound for the whole crop, the only exception being made for 'nondescript' tobacco. The Association recognizes some seventeen grades other than nondescript (By-law 55). Even if the grower is capable of estimating the proportion of each grade in his crop, he has no means of discovering with any significant

1. Evidence, p. 263.

degree of accuracy the values which buyers attribute to the various grades, and is therefore at a disadvantage in judging what his crop should bring. In the early 'thirties, the growers' organizations remedied this by defining the relative values of the formulated grades so that in any year a price could be assigned to each grade. The growers' crops were inspected prior to sale and the grower was informed of the approximate grade structure of his crop and its expected market value. This system could work only so long as the relative values assigned to grades were realistic. The Association's official grade differentials (By-law 54) appear to have been inherited from those established under the Natural Products Marketing Act and it is probable that, for some time, they reflected actual market differentials with reasonable accuracy. Market conditions have changed, however, to the extent that this system of differentials has become obsolete. While a member of the Association may on request have his crop inspected by an employee of the Association and so be informed of the approximate proportions of various grades in his crop, he is again without knowledge of the market values that should be assigned to the various grades. . . ."

Canadian flue-cured tobacco is one of the few Canadian products for which there are no official grade standards in existence. Evidence was given that it is a difficult thing to establish grades for tobacco. However, it is known that in other countries grades have been established for this type of product and have served to the advantage of the grower as well as the export buyer, if not for the domestic buyer, who follows a private system of grading. While the information available to the Commission does not permit any definite conclusions to be drawn as to the possible effects of official grades in the marketing of Canadian flue-cured tobacco, attention may appropriately be drawn to certain considerations which have been advanced in studies of the marketing of flue-cured tobacco in Canada and elsewhere. Professor W. E. Haviland who has studied the marketing of flue-cured tobacco in Canada and in Southern Rhodesia has made the following comment:

"The weak link in the barn-buying system used in Ontario for the purchase of burley and flue-cured leaf is grading."(1)

A system of government grades for flue-cured tobacco has been developed in the United States and a Federal inspector inspects lots of raw tobacco placed on sale at the auction warehouse and puts a Federal grade on each lot. Although it appears that buyers in the United States continue to use their own grading standards in making purchases of tobacco the government grades should put the grower in a better position to form an opinion as to the value of his lots in comparison with those of other growers being offered in the same market. There

(1) W. E. Haviland, "Major Developments in the Marketing of Leaf Tobacco in Ontario", The Economic Annalist, Vol. XXI, No. 1, 1951.

seems little question that if an effective system of grading could be established it would result in a general improvement in the marketing of raw leaf tobacco. One student of the tobacco industry in the United States has written:

"If accurate and reliable grading should in fact be possible, it would encourage the replacement of the auction system by some less expensive marketing arrangement."⁽¹⁾

Studies of the marketing of tobacco in the United States indicate that there are considerable difficulties in the way of developing standards which would be recognized generally by buyers. The following observations are given in a recent study prepared by the U.S. Department of Agriculture:

"Although the lots are graded by the buyer and the Federal Government, tobacco is sold at auction markets by displaying it and by inspection by prospective buyers rather than by grade. There is no single set of standards used by the growers and the buying companies. Each has his own standards of sorting and classifying the tobacco. These differ not only among themselves but in varying degree from the Federal standards. There are more than a hundred grades for the flue-cured tobacco established under the Federal standards. Each grower sorts into only a few grades. The buying companies have varying numbers depending on the tobacco they buy and the use they expect to make of it. Each company has more grades than an individual grower but fewer than are established under the Federal standards.

It has been suggested that improvement in marketing tobacco and a lowering of costs could be made by the use of a single system of grading by all the interested parties and the sale of tobacco by grade. Sale by grade would reduce the large amount of floor space required for the display of the tobacco and the labor necessary in the present method of sale. There are considerable difficulties, however, in developing and securing the adoption of a single universal set of grading standards. Two factors are especially important, the wide variation in the recognizable characteristics of the tobacco leaf and the lack of precision in the relation of these to the intangible

(1) R. B. Tennant, The American Cigarette Industry, Yale University Press, 1950, p. 222.

nature of the quality factors required for the different tobacco products."⁽¹⁾

The advantages to the Canadian flue-cured tobacco grower in a good grading system having official standing would appear to arise from the assistance it would give him in properly sorting his products for sale; this, in turn, would give him a better understanding and knowledge of the value of his tobacco in the market so that he would have greater assurance that the prices he received were comparable with those paid for products of like quality sold by others. A recognized system of grading would also serve to reduce disagreement between buyer and seller on the quality of a crop. An official grading system could also be of considerable assistance, especially on the export market, in that it could reduce the need for sample buying, thus lessening costs of marketing. There are probably other advantages which would arise if an effective system of grades could be and were employed in the marketing of flue-cured tobacco.

3. Barn Buying and Auction Buying

As has already been mentioned the marketing of Canadian flue-cured tobacco is done by the barn-buying method, a system which had been developed before the formation of the Association. Although the effectiveness of this system of buying has been questioned from time to time support for alternative methods of buying never appears to have been sufficient to lead to any changes. The following comment on the barn-buying system was made in the report of the Royal Commission on Price Spreads:

"This barn-buying system is considered by some as unsatisfactory, [*] yet both producers and domestic buyers appear loath to abandon it. The alternative is the 'auction-floor' system as used in the Southern United States. Under this method, the farmer grades his crop and sells it through the medium of an auction warehouse. These warehouses are independently owned and there is no direct contact between grower and buyer. This

(1) United States Department of Agriculture, Agricultural Marketing Service, Marketing Research Report No. 101, The Auction Marketing of Flue-cured Tobacco, A preliminary Appraisal, September, 1955, p. 15.

* In the report made in 1933 of an investigation into an alleged combine of tobacco manufacturers and other buyers of raw leaf tobacco in the Province of Ontario the barn-buying system was described as an "obsolete and antiquated method of marketing tobacco".

method of selling obviates the necessity of field inspection staffs, permits the grower to obtain cash at any time during the market by delivering his tobacco for sale at the warehouse, and in general allows similar prices to be paid for similar leaf. On the other hand, the grower is put to the extra expense incurred by grading and by the payment of a selling commission and other charges to the warehouse. Finally, the auction-floor system has not been able to prevent such practices as 'under-cover buying' and 'holding off' the market, which are features of the barn-buying method. Properly supervised and controlled, however, the auction system would appear to be the more logical method of marketing."⁽¹⁾

The view that other methods of marketing, such as the auction system, would be more advantageous to the Canadian flue-cured tobacco grower was not supported by the preponderance of the evidence in this inquiry in spite of certain shortcomings which it appeared existed under the barn-buying method.

The following were among the principal reasons given for the advantages of the barn-buying method under the conditions existing in Canadian tobacco-growing areas:

1. Canadian tobacco farms are relatively large in size, the average acreage harvested being about 30 acres per farm, resulting in a large quantity of tobacco per farm. The alternative method of selling, that is the auction-floor method, would mean that farmers would have large quantities to haul to an auction floor which would be a big task and involve considerable costs.
2. Canadian tobacco is not ready for sale until the early winter. To preserve the quality and to prevent damage to the tobacco under a central auction system would involve special transportation facilities and heated auction warehouses for protection against the cold weather.
3. Farmers would have to be more expert at classifying their tobacco according to different grades in order to present it more effectively on the auction floor.
4. If the farmer was not satisfied with the price offered for the tobacco on the auction floor he would have the

(1) Report of the Royal Commission on Price Spreads, 1935, Ottawa, p. 148.

expense of hauling the tobacco back to his own barn and would run the risk of damage to the product. By selling in the barn the farmer has the opportunity of accepting or rejecting the offer made to him by the buyer without first having to move the crop.

The alternative method of selling discussed before the Commission, which is followed in the United States and Southern Rhodesia, is the auction-floor method. The main feature of this method of selling is that it brings together all the buyers at a central point under conditions of competitive bidding from which it might be expected that a more representative price for the product would be obtained. In the auction sales of tobacco in the United States there are on each floor representatives from the various types of buyers, that is the domestic manufacturers, independent dealers for the domestic and export trade, and in addition to these, a group known as "pinhookers". These are in a sense speculators on the market who will buy lots of tobacco which are underpriced because of certain conditions surrounding the particular lot and resell such tobacco in leaf form without redrying or other processing.⁽¹⁾ The most usual reason for the underpricing of certain lots is the fact that the tobacco in the lot is not properly sorted and graded and consequently not desired by the regular buyers. The pinhooker then will buy the lot at a relatively low price, re-sort it and sell the various grades at a profit. There is thus an additional competitive element in the market which will serve to provide wider sale opportunities for the farmer. It should be borne in mind that the total production of tobacco is many times greater in the United States than in Canada. In recent years production of tobacco of all kinds in the United States has exceeded two thousand million pounds per year compared with less than two hundred million pounds in Canada.

Tobacco growers in the United States can, of course, utilize the auction more easily than would be possible in Canada because the American flue-cured tobacco farm is a relatively small one. One witness, with experience in both countries, stated that the acreage allotment on a flue-cured tobacco farm in the United States might be about 4 to 5 acres.⁽²⁾ It is a simple matter to arrange the total production from such a small acreage in small lots and transport it in baskets to the auction floor for sale.

(1) For a discussion of the auction marketing of flue-cured tobacco see the report previously cited, The Auction Marketing of Flue-Cured Tobacco. A Preliminary Appraisal, September, 1955.

(2) Hearing, p. 65.

Disadvantages in the auction-warehouse system of tobacco marketing compared with the barn-buying system were referred to in the evidence and the principal disadvantages are analysed in the United States Marketing Research Report No. 101 previously mentioned. It is indicated in the latter that there is a considerable loss to the farmer from damaged leaf in the handling of the baskets of tobacco on the auction floor. That this is of some significance is shown by the fact that the warehouse keepers earn a considerable income from this type of damaged leaf which is left in the warehouse and is picked up by them and sold for their own account.⁽¹⁾

Another disadvantage to the grower is the cost of marketing by the auction method. It is shown in the same study that the costs of marketing to the grower consist of the following items: 2-1/2 per cent commission, 15 cents per hundred pounds or 25 cents per lot over a hundred pounds for auction fees, and 10 cents per hundred pounds or part thereof for weighing and handling. On a basket of 175 pounds of tobacco where the price is fifty cents a pound this cost would amount to \$2.64 per basket. These direct costs may be contrasted with the barn-buying method as found in Canada during the existence of the Association. As previously noted, the cost to the farmer for the operation of the Association has over the years ranged from 3 cents to 12-1/2 cents per hundred pounds of tobacco sold, which includes other costs of the Association besides these connected with marketing. It is obvious of course that the farmer indirectly pays for the costs of marketing that are incurred by the buyers, and under the barn-buying system these involve the inspection of farmers' crops during the growing and harvesting seasons by the representatives of buying companies and the visits to individual farms for the purchase of the crops. The evidence does not provide any indication of the scale of such indirect costs, but it was pointed out that while the visits of the buyers were directed ultimately toward the purchase of the crop they also served to assist the grower by providing opportunity for the buyer to give advice and assistance in regard to production problems.

Under the auction method followed in the United States buyer representatives and their assistants must attend at the various warehouses during the sale periods. In the study by the U.S. Department of Agriculture, The Auction Marketing of Flue-Cured Tobacco, it is estimated that the company costs of providing representatives, assistants and labour on flue-cured markets amounted to about one-half of one per cent of the payments made by companies for tobacco.⁽²⁾ The total cost at the auction markets paid by the growers was placed in the same study at four per cent of the growers' returns.⁽³⁾

The general effect of the evidence given in the inquiry was that the auction system of buying did not offer any advantage to the

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- (1) op. cit., Table 1, p. 4 and discussion. S 0 3 0 8
(2) op. cit., p. 24.
(3) op. cit., p. 1.

Canadian flue-cured tobacco grower. Study does not appear to have been given to the problem whether it would be possible to modify the auction system so as to secure the advantages of simultaneous competitive bidding for lots of tobacco offered on an anonymous basis without involving all the costs which the present American system would appear to involve if operated under Canadian conditions.

It should be stated, at this point, that Southern Rhodesian tobacco is marketed under an auction system which was made compulsory by legislation passed in 1936. (1) There the average tobacco acreage per farm is considerably larger than in Canada (2) and the Marketing Board fixes delivery quotas for individual growers to prevent congestion at the auctions. Professor Haviland does not state whether there are any difficulties in marketing the relatively large volumes of tobacco from the large farms in Rhodesia apart from indicating the control which is exercised over deliveries. It may be suggested that the conditions as to temperatures during the marketing periods and the availability of labour would be more favourable in Southern Rhodesia than in Canada. Professor Haviland also points out that only two auction floors are used for the sale of the Southern Rhodesian crop of about 100 million pounds.

The reasons why tobacco growers in Southern Rhodesia are satisfied with the compulsory auction system are given by Professor Haviland as follows:

"The tobacco auctions centralise selling and provide an orderliness in marketing. Centralised selling facilitates the supervision of marketing by the Tobacco Marketing Board. The two auction warehouses act as independent middlemen, but it is in their interest for their customers to receive satisfactory prices. With the auction method, the sellers and buyers can compare their prices with those of similar grades on the floor. The sellers obtain their money without delay. The maximum weighing and selling charges are set by the Marketing Board, but the sellers usually receive a substantial competitive rebate at the end of the season. The buyers see on the auction floor what tobacco they are getting. The buyers can purchase just what quantities and grades they need without also taking unwanted leaf." (3)

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- (1) W. E. Haviland, "The Tobacco Industry of Southern Rhodesia", Rhodesia Agricultural Journal, Vol. 49, No. 6, November-December 1952, p. 373.
- (2) The average number of acres of flue-cured tobacco per grower is given by Professor Haviland as 71.5 acres in the period 1949-51 and the average yield in the period 1947-51 as 623 lb. per acre.
- (3) *ibid.*, pp. 373-74.

He also points out that the auction system facilitates anonymous selling when the grower does not wish to reveal the lots he is offering for sale. In Southern Rhodesia the Marketing Board classifies the tobacco after sale but classification prior to sale was turned down by the growers in 1949. The absence of accepted grade standards apparently leads to complaints of variations in prices for tobacco similar to those voiced in connection with marketing in Canada. (1)

4. Control of Flue-Cured Tobacco in the United States and Southern Rhodesia

In both the United States and Southern Rhodesia tobacco production and marketing are subject to governmental control. In this respect the situation in these countries differs from that in Ontario where the production and marketing controls have been made by private arrangement. The objectives of the legislative enactments in the United States and Southern Rhodesia, from the viewpoint of the tobacco grower, appear similar to those expressed on behalf of the Association and as the tobacco programmes in these two countries appear to have developed out of depressed conditions similar to those experienced by the Ontario flue-cured tobacco grower in the early 1930's it is appropriate to review briefly the principal features of the statutory arrangements in effect in the United States and Southern Rhodesia.

(a) United States

The controls currently operating in the tobacco industry in the United States are based on the Agricultural Adjustment Act of 1938, as amended, but experience in this field dates back to the Agricultural Adjustment Act of 1933. The following description of the present controls is given in a study of the loose-leaf auction market in the United States:

"The Production and Marketing Administration set up under the Agricultural Adjustment Act of 1938 is an organization designed by the federal government to help the farmer adjust his supply to existing demand and stabilize the farm price of tobacco. This program of production control and price support has contributed much toward achieving stability in the farm price for tobacco. The price support program keeps the farm price from falling below a level where production of tobacco would be considered unprofitable.

The authority of farmers to use marketing quotas is given by the Agricultural Adjustment Act of 1938. The

(1) *ibid.*, p. 374.

act includes all important types of tobacco in the United States. After the beginning of each marketing year, the Secretary of Agriculture is required to determine the relationship between the 'total supply' at the beginning of the marketing year and the 'reserve supply level'. 'Total supply' means all stocks of unmanufactured tobacco in the United States at the beginning of the marketing year and the estimated current crop. 'Reserve supply level' is a normal year's domestic consumption and exports, plus 175 percent of a normal year's domestic consumption and 65 percent of a normal year's exports as an allowance for a normal carry-over. An additional 5 percent of the total supply is allowed to meet the needs in years of adverse weather conditions.

The amount of the national marketing quota is the total quantity of tobacco needed in addition to the estimated carry-over at the end of the current marketing year to provide a total supply for the next marketing year equal to the reserve supply level. The original act provided marketing quotas to be established for individual producers in terms of a certain number of pounds of tobacco, but in 1939 the act was amended and the farm marketing quotas were based on acreage allotments. The marketing quotas are now defined as actual production from farm acreage allotments.

After tobacco is planted, the acreage is determined by measurement of all tobacco on each farm in the country. Each farmer in the county is notified by the county committee of the Production and Marketing Administration of the planted acreage on his farm. Just before the marketing season the farmer receives a marketing card from the county committee which he must present to the warehouseman when the sale is completed. Attached to this card is a number of blank memoranda of sale to be used in identifying each lot of tobacco sold.

If the farmer's harvested acreage is within the acreage quota for his farm he receives a white marketing card and his tobacco may be sold free of penalty. A red card is issued to the farmer who has harvested more acreage than his quota. He is required to pay a tax equal to forty percent of the area average market price per pound based on the previous crop year as a penalty for all tobacco sold above his authorized allotment. Also, the producer, with an acreage harvested in excess of his quota, does not have the benefit or protection of the price support program set up in the auction market. The excess producer must assume the full risk of the price variations occurring in the auction sale." (1)

(1) Carl M. Clark and Wilmer Browning, Organization of the Loose-leaf Tobacco Auction Market, Kentucky Agricultural Experiment Station, University of Kentucky, Lexington - June, 1953, pp. 81, 82.

Stated briefly, the legislation provides for a supply at the beginning of the marketing year that is equal to 2.8 times the annual needs of domestic manufacturers plus about 1.7 times the needs of exporters. This is a definite formula for the determination of supply based on the relationship between production, stocks and industry's requirements in the past ten years. The decision as to whether a national marketing quota shall be established for any year rests with the Secretary of Agriculture. If in any year, and not later than December 1st, the Secretary determines that the total supply of any kind of tobacco reaches a level in excess of the reserve supply level as defined above, then he can proclaim a national marketing quota for the following year. However, before such a proclamation can become effective a referendum of growers has to be held. Such quota can only be put into effect if at least two-thirds of the eligible growers of tobacco vote in favour of this quota. Very specific regulations are provided for the establishment of the individual farmer's acreage allotment. In essence each farmer's acreage allotment is based on his previous experience as a farmer and upon the acreage of tobacco that he produced in several previous years. Provision is also made for the entry of new growers into the production of tobacco. It is specified that 5 per cent of the national marketing quota shall be set aside each year for new growers' allotments and for adjustments of old growers' whose acreages may have been set at an unfair level. It is also required of course that before an allotment can be given to a new farmer he must qualify in terms of good husbandry and knowledge of tobacco production. As indicated in the extract quoted above a penalty is provided against any grower who exceeds his acreage allotment.

While the regulation of production aims at adjusting the supply with the demand, provision is made for a system of price supports to growers in event that marketing conditions change adversely for the grower. Tobacco prices have been supported in the United States at 90 per cent of parity. The American farmer thus has the choice of either selling his crop if the prices prevailing on the market are above the support price, or placing it under loan when prices are below the support price. As already described above, flue-cured tobacco in the United States is sold on the auction floor. The farmer delivers his tobacco in baskets to the auction warehouse, where it is graded by a government inspector and a grade ticket placed on it. The tobacco is then auctioned off to the highest bidder. If the price at which it has been sold is not satisfactory to the farmer he can, if he acts immediately, reject the sale by turning the ticket on his tobacco basket. Usually if the sale price is less than one dollar a hundred pounds above the support price farmers will reject the sale. The farmer may, of course, re-offer his tobacco for sale at the auction at another time or he may allow it to go under loan. These loans are provided by the Commodity Credit Corporation of the United States Department of Agriculture. This Corporation deals through producer co-operatives who make arrangements for receiving,

redrying, packing, storing and ultimately marketing the tobacco placed under the loan. The loan advances are made to the co-operatives, who in turn pay them out to the member producers. Price support loans are not available to tobacco growers in any year in which they reject the marketing quota or to any farmer whose production of tobacco exceeds the allotment.

One significant difference between the controls exercised by the Association and those imposed under farm marketing legislation in the United States was pointed out to the Commission. This is that the Association controls have not involved any financial support by governments whereas in the United States the programme of loans is a definite responsibility of the federal government. It appears that until recently the flue-cured tobacco programme did not appear likely to involve the federal treasury in any large payments but increasing production in the last few years has given rise to fears that an unwieldy surplus may be created. The following views are contained in an article in The Canadian Tobacco Grower of February, 1956 quoting William D. Poe, Associate Editor of The Progressive Farmer of the United States:

" . . .

Strangely, the most perplexing trouble has been created by the ingenuity of flue-cured tobacco growers. From an average production of 849 pounds per acre 1933-38, they climbed steadily to an average of 1,275 pounds per acre 1950-54, and then on up to last year's record-breaking production of 1,525 pounds. This phenomenal increase has been brought about by improved varieties of tobacco, better fertilization, and better insect control. In the last few years, irrigation has also become an increasingly important factor. As Dr. W.E. Colwell, director of tobacco research, N. C. State College, says, 'Although there may be a ceiling on potential yields of tobacco, it has not yet been reached. It seems certain that growers will continue to increase average flue-cured tobacco yields per acre for many years to come.'

. . .

'One of the most serious aspects of the tobacco situation,' says farm leader E.Y. Floyd, 'is found in the large holdings of tobacco by the Flue-Cured Tobacco Stabilization Co-Operative. These holdings have increased sharply each year from 1952 through 1955, and almost certain increases brought on by last year's crop will make an already bad situation worse.'

There are other differences which may be noted which arise from the fact that the American programme is operated as a matter of public policy governed by specific statutory provisions.

In the first place the legislation provides that "in carrying out the purposes of this Act it shall be the duty of the Secretary to give due regard to the maintenance of a continuous and stable supply of agricultural commodities from domestic production, adequate to meet consumer demand at prices fair to both producers and consumers."

Secondly, no controls can be imposed on growers without a majority of them voting in favour of such controls, either annually or for a period of years in advance.

Thirdly, the basis upon which a national marketing quota is established and the controls that may be put into effect are public knowledge, inasmuch as it is all publicly discussed and publicized before a referendum is taken.

Fourthly, there is specific provision for the entry of new growers into the industry on an equal basis with those already engaged in the industry. Some students have pointed out, however, that the provisions place rather severe limitations on the ability of persons desiring to engage in production of tobacco for the first time to secure a quota.

The following criticism of the tobacco programme in the United States has been made in an exhaustive study of the cigarette industry in that country:

"To sum up, since 1933 (and particularly since 1940), American tobacco growers have been able to achieve a degree of monopoly control over the production and sale of their product far greater than that which they tried and failed to accomplish through large-scale cooperative marketing during the 1920's. The federal tobacco program has had all of the features of a cartel arrangement, with individual-firm quotas, benefits for participants and penalties for non-participants, and strong restraints on the entry of new firms. The establishment of marketing quotas by producer referenda has created a façade of democratic procedure which has brought acceptance by the courts. But the overwhelming success of the referenda is assured by the knowledge that direct price supports and other benefits will end if producers reject marketing quotas, by the fact that eligibility for voting is limited to those already participating in the program, by the vigorous electioneering of Department of Agriculture personnel for a favourable vote, and by the past success of rigid controls which worked only by virtue of the strong hand of government. In other words, existing producers 'are voting themselves the monopolies that Congressman Hope criticized.'

During the past fifteen years, the monopoly profits of the large tobacco companies have undoubtedly been reduced somewhat by the federal tobacco programs, shifting much of the gains to existing leaf producers. Therefore, it is easy to justify the tobacco programs upon the basis of the oligopsonistic markets in which unorganized and uncontrolled leaf must otherwise sell. But to do so is to overlook the undesirable longer-run economic effects to which such programs lead. First, they distribute production among leaf producers without regard to their relative efficiency. Second, they create a strong vested interest of existing producers in their own quotas and lead to action which arbitrarily forces those without historical quotas to produce less profitable alternative products. Third, the benefits of the programs are gradually being dissipated through their capitalization in land values as ownership of farms with allotments passes into new hands. Fourth, the achievement of the most economical combination of land and other resources has been blocked by acreage allotments. Fifth, despite the relatively favorable demand situation for cigarette leaf, high and inflexible levels of guaranteed price supports could even yet lead to large 'surpluses' of leaf in government hands, such as wheat and cotton have experienced in past years. However, the alternative, by which this outcome will probably be prevented, is a continuation and further tightening up of the present rigorous system of acreage controls, benefits and penalties, with new producers frozen out by legislative fiat. Sixth, insofar as such leaf 'surpluses' do materialize, 'dumping' abroad and other policies inconsistent with our present foreign policy will be resorted to on a largescale. And finally, the tobacco programs, by attempting to solve the low-income problem of tobacco growers through the pricing mechanism, shift attention away from alternative techniques (aimed at increased size of farm and the movement of excess farm population into non-agricultural employment) by which a solution to the income problem more consistent with the general public interest might ultimately be achieved."⁽¹⁾

(b) Southern Rhodesia

The tobacco marketing arrangements in Southern Rhodesia have not been the subject of such extensive analysis as the agricultural programmes in the United States but further reference may be made to the study by Professor Haviland. The following description of the marketing legislation and the activities of the control authorities is given in this article:

(1) William H. Nicholls, Price Policies in the Cigarette Industry, Vanderbilt University Press, 1951, pp. 238-39.

"The Tobacco Marketing Act of 1936, with its several subsequent amendments, provides the comprehensive legal framework governing the marketing of Virginia flue-cured and fire-cured tobacco in Southern Rhodesia. The Tobacco Marketing Board is composed of three grower and two buyer representatives with a senior civil servant as chairman. The Board's funds may be composed of loans approved by the Minister of Agriculture (Act 1945), a claim upon the Virginia Tobacco Levy Account (Act 1946), and licence fees.

The Minister of Agriculture, after consultation with the Tobacco Trade Association and the Rhodesian Tobacco Association, prescribes the varieties of tobacco that may be sold and exported (Act 1949) or grown (Act 1951). The Minister is empowered to control tobacco production at his discretion and after consultation with interested parties by means of acreage or sales (weight) quotas (Act 1949). All tobacco is sold by auction unless otherwise permitted by the Board. The commercial graders (Act 1949), buyers and auction floors are licensed by the Board. The growers are registered by the Secretary for Agriculture. The Minister, in consultation with the Board, annually before sales, sets minimum prices. The Board supervises grading (Act 1949) and auction sales. Tobacco is exported under permit from the Secretary. The Board can determine surplus tobacco and regulate its disposal. The Board collects statistics from growers, graders, auction floors, buyers and exporters."⁽¹⁾

Although, as already indicated, the marketing legislation in Southern Rhodesia makes provision for production controls it does not appear from the article that such controls have been imposed in recent years. One of the important features contributing to the stabilization of the marketing of flue-cured tobacco in Southern Rhodesia has been an agreement with U.K. manufacturers to buy two-thirds of the flue-cured crop each year under certain conditions which are described as follows:

"Stabilization of marketing conditions in Southern Rhodesia has been achieved by an agreement with U.K. manufacturers to buy at the auctions each year for the first five years from 1948 on, two-thirds of the Rhodesian flue-cured crop up to a certain maximum a year, provided the tobacco is of suitable quality and prices are reasonable, and that there is no further appreciable fall in consumption in the United Kingdom. The manufacturers also have agreed to consult with the Tobacco Marketing Board every year to settle a provisional five-year program so that the growers will have an indication of what the United Kingdom will need five years ahead. Growers are members of the

(1) Haviland, op. cit., pp. 370-71.

Rhodesia Tobacco Association, which maintains a secretariat in Salisbury. The Marketing Board has three grower members, two buyer members and a government official as chairman.

At the renewal of the above-mentioned agreement in 1951 the United Kingdom manufacturers agreed to buy 34,000 tons in 1951 and 36,000-39,000 tons in each following year to the end of 1956, if these amounts do not exceed two-thirds of the crop."⁽¹⁾

As in the case of the United States, a major distinction between the arrangements of the Association and those in effect in Southern Rhodesia is that the latter are administered essentially by public authorities under statutory provisions.

(1) F.A.O. Commodity Series, Bulletin No. 20, Tobacco, October 1952, pp. 21-22.

CHAPTER VIII

COMMENTS ON ASPECTS OF THE FLUE-CURED TOBACCO INDUSTRY DURING PERIOD OF THE ASSOCIATION

In view of the many aspects of the production and marketing of flue-cured tobacco in Ontario and elsewhere which have been surveyed in preceding chapters of this report it is desirable to recapitulate the more pertinent aspects in relation to the inquiry before proceeding to draw conclusions from all the information which has been obtained.

1. Increase in Number of Flue-Cured Tobacco Farms in Ontario

The official agricultural statistics in Canada do not segregate flue-cured tobacco growers from the total growers of tobacco. Information provided by the Association must be relied upon to indicate changes over the years in the number of flue-cured tobacco farms in Ontario. The data have been presented already in Tables 5 and 10⁽¹⁾ and these show that the total number of Association and independent farms has increased from 2,576 in 1941⁽²⁾ to 4,087 in 1955. The number of Association farms in 1936 was 1,529 and this total increased to 2,247 in 1941 and to 3,564 in 1955.

While these figures indicate a substantial rate of growth during the period of the Association it is a fact that there were at various times significant numbers of independent growers, the size of the group appearing to vary with the prevailing policy of the Association in admitting new members. The existence of independent growers indicates that the Association did not control completely the production of flue-cured tobacco in Ontario because new growers entered the industry and also sold their crops. These facts that new producers entered the industry and found a market for their crops raise questions as to the purpose of the Association in restricting membership and as to whether the Association tended to be too conservative in estimating the amounts of Canadian flue-cured tobacco which could be marketed.

It must be assumed that the policy of the Association in not maintaining a recognized procedure for the admittance of new members was intended to have a restraining influence on the expansion of the

(1) Based on Exhibit H-4.

(2) The earliest year for which the number independent farms is reported.

flue-cured tobacco industry in Ontario. This policy was, of course, also carried out in the control which the Association maintained over the acreage which could be planted by its members. The fact that in only two years since 1947 were members authorized to plant their basic acreages and that in three years the percentages of basic acreages authorized ranged from 75 per cent to 66-2/3 per cent indicates that a substantial restraining influence was actually exercised.

2. Relative Size of Flue-Cured Tobacco Farms in Ontario

Acreage allotments of members of the Association have been made more on an historical basis than on a determination of the most efficient use of the resources available to the grower. In the case of the early members, acreage allotments were made on the basis of tobacco grown in preceding years. Subsequently, when new members were admitted, they were allowed 45 per cent of the acreage considered suitable for tobacco growing. In the case of members admitted in 1956, the acreage allotment was based on 6 acres per kiln constructed on the grower's farm. The acreage allotments set on these various bases by the Association appear to have remained fixed thereafter. From time to time suggestions have been made that acreage allotments should be reviewed and that, at least, some increases should be given to growers with very small allotments but no procedure for review appears to have been formulated.⁽¹⁾ The freezing of acreage allotments under the Association regulations probably was largely responsible for the development of new tobacco farms outside the Association through the direct or indirect support of members, to which development was attributed, in large measure, the rapid increase of independent farms in 1954 and, particularly, in 1955. It is a question then, whether there would have been as large an increase in flue-cured tobacco acreage outside the Association if a different policy had been pursued with respect to acreage allotments within the Association.

The evidence in the inquiry indicates that within limits, which were not clearly defined, any increase in the scale of operations on a flue-cured tobacco farm will result in greater efficiency, that is, a larger net return from a given unit of resources. The Commission was not referred to any studies which indicate the optimum size of flue-cured tobacco farms in Canada, but there appeared to be a general view among witnesses that profitable operations would require at least 30 acres of crop. If the size of crop is held below the optimum level the costs, in relative terms to the farmer, are increased and, of course, greater resources are employed in the industry than would otherwise be needed to produce the quantity of output obtained.

It was admitted that when a decision was made to reduce allotments to less than basic acreages the cost per unit of producing the crop from the reduced acreage would tend to increase. Consequences of the same nature are likely to follow when farmers are unable to

(1) The Canadian Tobacco Grower, February, 1956, p. 51.

enlarge their production of flue-cured tobacco to make the most efficient use of their resources and management skills. It will be seen from Table 5 that only in two years during the life of the Association has the average area in crop per Association farm exceeded 30 acres. In one of these years the allotment was "open" and in the other, it was 100 per cent. This means, of course, that throughout the period a great many farms were producing less than 30 acres of tobacco.

Some indication that in the absence of restriction tobacco farms tend to become larger is given by Table 13 which shows the distribution of independent or formerly independent farms according to size. It will be seen that of the farms admitted to membership between 1945 and 1951, 27.1 per cent consisted of farms with more than 32-1/2 acres in crop and, including these farms, 41.2 per cent were larger than 27-1/2 acres. It will also be seen from Table 11, which gives the distribution by years, that most of the large farms were admitted in 1946 and 1947 which means that they were developed during the period when tobacco production was being encouraged. On the other hand, of the independent farms operating in 1954, only 16.9 per cent exceeded 32-1/2 acres in crop and only 25.2 per cent were larger than 27-1/2 acres. This suggests either that new growers tend to begin tobacco production on a small scale and then increase the size of their operations or that independent growers are less inclined to start tobacco production on a substantial scale when faced with the uncertainties considered to exist when the grower does not possess a marketing quota.

3. Increase in Yield per Acre of Flue-Cured Tobacco Farms

One of the most striking developments in tobacco production during the past twenty years has been the large increase in yield per acre, not only in Canada but in other tobacco-growing countries as well. Reference has already been made to increases which have occurred in the United States and there has also been a substantial increase in the yield per acre in Southern Rhodesia.

Table 28 - Tobacco, Flue-Cured: Average Yields per Acre for Association Members and for Independent Growers, Ontario, 1946-1954

Year	Association Members	Independent Growers
	Lb. per Acre	Lb. per Acre
1946	1, 372	1, 219
1947	856	538
1948	1, 150	1, 231
1949	1, 329	920
1950	1, 194	1, 155
1951	1, 351	465*
1952	1, 577	1, 274
1953	1, 437	1, 311
1954	1, 453	1, 241

* It was stated in evidence that the figures for independent growers in 1951 were not representative due to the fact that new members were being admitted to the Association and the production in some cases may have been included in Association figures while the acreage was classed as independent. There may have been a similar occurrence in 1947.

Source: Exhibit H-4.

An examination of the yield figures for Association members and independent growers for the years 1946 to 1954 as presented in Table 28 suggests that the yields of growers operating under acreage control are higher than those operating outside of such control. This difference, if it exists to the extent suggested by the figures, is not out of keeping with what would be expected. In the first place, it would be expected that independent growers would consist largely of persons with less experience than Association growers and, therefore, they would be less likely, on the average, to secure as good results. Secondly, the scale of operations may also be a factor in securing larger returns and it has already been suggested that new growers tend to start on a smaller scale than established producers. Finally, it has been the experience under most forms of control of agricultural production that when acreage is held down intensive efforts are made to increase the output per acre under crop. This may be accomplished by eliminating poorer tobacco-growing lands and intensifying operations on those acres likely to produce the best yields. Higher yields may be sought through the use of more labour, better care in cultivation and harvesting, including weed and insect

and pest control, better seed, and as is the case in Ontario today, the use of irrigation.⁽¹⁾

The efforts of individual growers to secure increased yields have doubtless been stimulated and assisted by the general policy followed by the Association to raise the standard of quality of Ontario flue-cured tobacco and to encourage its members to make the best use of tobacco lands and of new techniques. In these ways the Association has contributed to the more rapid acceptance of new technologies in tobacco production as well as to the improvement of the quality of tobacco produced.

4. Expansion in Acreage and Output of Flue-Cured Tobacco

The data given in earlier sections of this report show the substantial increase in the acreage and output of flue-cured tobacco during the existence of the Association. It is not possible, of course, to determine what the rate of expansion would have been if less rigorous control had been kept over the acreage from which such a large proportion of Canadian production has been obtained. It has been suggested on behalf of the Association that less control would have resulted in disturbed market situations with fluctuating and perhaps depressed prices which would have militated against expansion in production.

Some references have already been made to the production of flue-cured tobacco in Southern Rhodesia, which has become one of the principal exporting countries for flue-cured tobacco. It is of some interest therefore, to compare the rate of growth of tobacco production and trade in Southern Rhodesia with that of Canada as is done in Table 29.

(1) . It is estimated that roughly 45% of the total tobacco crop in Ontario was irrigated in 1955 and that about 65% of the acreage in tobacco will be irrigated in 1956.

Source: Statement by E. W. Presant, Provincial Tobacco Field Man, at Delhi, Ontario, as reported in The Canadian Tobacco Grower, July, 1956, p. 42.

Table 29 - Tobacco, Flue-Cured: Growth of Production and Trade, Canada and Southern Rhodesia, 1952-1954 as a per cent of 1936-1939

	Canada	S. Rhodesia
Acreage	182.48	341.84
Yield per Acre	134.37	133.76
Total Production	245.21	457.30
Exports*	268.69	499.28

* Compared with average for 1935-39.

Sources: Canada - D.B.S., Reference Papers, 1950, Historical Series of Tobacco Statistics: D.B.S., Quarterly Stocks and Consumption of Unmanufactured Tobacco, March, 1956.
Southern Rhodesia - The Commonwealth Economic Committee, Intelligence Branch, Tobacco Intelligence, Vol. 8, No. 1, February, 1956.
Exports, Canada and Southern Rhodesia - United States Department of Agriculture, Agricultural Marketing Service, Annual Report on Tobacco Statistics, 1955.

While the yield per acre in Canada is substantially higher than in Southern Rhodesia, 1,410 lb. per acre in 1954, compared with 697 lb. per acre for Southern Rhodesia, the progress made in the latter country has been substantial. The more favourable conditions, particularly with respect to foreign exchange applying to the export of Rhodesian tobacco have been mentioned earlier and should be borne in mind in considering the data in Table 29. It may be noted that while the production of tobacco in Southern Rhodesia has been subject to statutory market control this does not appear to have involved direct control of tobacco acreage and the rapid expansion in output, as shown in Table 29, has been attained with growers free to decide upon the amount of land which they would devote to tobacco growing.

5. Valuation of Association Acreage Allotments

One of the results of the control over acreage of members which has been exercised by the Association has been the placing of a monetary value upon the acreage allotment. The value that so-called acreage "rights" has assumed seems to have no direct relationship to any measure of income which would be realized from the land to which the rights apply. While the acreage allotments are real, in the sense that they do permit owners of such rights to dispose of their crops under given conditions more favourable than those applying to farms without such allotments, still the value that many people attach to them appears to a considerable degree to be unrealistic in terms of actual

earning power. Some idea as to the value of rights including the farm land upon which these rights apply may be gained from Table 30.

Table 30 - Offering Selling Price by Owners of Tobacco Farms with Acreage Rights (M.B.R.) Showing Total Price, Price per Acre of the Farm as a Whole, and Price in Terms of the M.B.R. Acres

Farm	Selling Price	Farm Acreage Cleared	M. B. R. Acreage	Acreage Value	
				Farm	M. B. R.
A	\$85,000	200	45	\$425.00	\$1,888.89
B	95,000	130	42	730.77	2,261.90
C	95,000	195	45	487.18	2,111.11
D	80,000	200	40	400.00	2,000.00
E	60,000	107	35	560.75	1,714.29
F	60,000	100	32	600.00	1,875.00
G	28,000	50	16	560.00	1,750.00
H	80,000	200	40	400.00	2,000.00
I	54,000	79	30	683.54	1,800.00
J	26,000	73	22	356.16	1,181.82
K	45,000	93	36*	483.87	1,250.00

* In prospect.

Source: These data were calculated on the basis of advertisements appearing in the various issues of The Delhi News-Record during the winter of 1955-56 and cover 11 farms with rights or prospective rights.

It will be seen that farms having rights are offered at varying prices per acre for the entire farm. While this variation may be due to differences in the land and the buildings on the farm, still it suggests also some value that the seller has assigned to the rights themselves. The figures in the last column indicate the value placed on acreage which may be devoted to the principal crop, tobacco, in terms of the rights themselves. These indicate relatively high values placed on the acreage allotments by different sellers. For example, Farm J is offered at a price of \$1,181.82 per acre on the basis of allotment rights. Farm B on the other hand is offered at a price almost twice as high.

In a recent study in the United States it was found that in the principal flue-cured tobacco areas it has been accepted practice for several years to base the whole value of ordinary small tobacco farms on the size of the tobacco allotment.(1) This may amount to

(1) C. B. Hoover and B. U. Ratchford, Economic Resources and Policies of the South, MacMillan, New York, 1951, p. 357

three to five acres on a farm of 30 to 50 acres. While the farms in Canada are larger than the ones in the study referred to above there appears to be the same tendency on the part of the farmer to think about the value of his farm primarily if not entirely in terms of the acreage rights.

As previously suggested it is difficult to find a realistic basis for these high values for rights in terms of productivity of the land.

Professor W. E. Haviland, in his study of the production of flue-cured tobacco in Ontario, ⁽¹⁾ found that in 1948-49 the typical farm with 30 acres in tobacco would produce a net income of \$2,839 to the farmer after meeting all expenses and allowing \$1,206 as a reserve for depreciation on buildings and equipment. While yields per acre and average prices of flue-cured tobacco have increased since 1949 the advances do not appear to be large enough to explain the high valuations currently being placed upon Ontario tobacco farms, especially in view of the increases in operating costs which have also occurred. If a property is offered on the basis of \$2,000 per acre of tobacco allotment it would be expected that the net income would be commensurate with the capitalization. The income from an asset having a value of \$2,000 capitalized at 5 per cent would be \$100 and for a farm of 30 acres in tobacco this would amount to \$3,000. It is difficult on the basis of Professor Haviland's data, even with the increase in yields and prices, to see how such a return could be earned in addition to the current income of the producer. One plausible explanation may be that farmers tend to include in their income which they capitalize into value all the excess returns over and above what their cash outlay is in production. Commenting on the situation in the United States the authors of Economic Resources and Policies of the South state:

"The normal economic process for determining the price of that land would be to take the 'normal' price of the land - that is, its value for unrestricted use - and to add to it the present discounted value of the differential profit to be made from growing tobacco on it for all years in the future, in so far as such profit can be foreseen and estimated. To the extent that this process works out, all present and expected future special advantages to tobacco growers accrue to present landowners; workers who rent land now or buy it in the future get only the normal return for their work."⁽²⁾

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- (1) W. E. Haviland, "Some Economic Aspects of Tobacco Farming in Ontario", The Economic Annalist, Vol. 20, Nos. 5 and 6, October and December, 1950, Vol. 21, No. 1, February, 1951, p. 128.
- (2) *op. cit.*, p. 359.

6. General Attitude of Growers Towards the Association

There is no indication anywhere in the evidence that any producers of flue-cured tobacco in Ontario wish to see tobacco production carried on without some system of control. There was general support for the Association not only on the part of members but also on the part of independent growers. While the opinions of the latter were given as outsiders, although with evident hope that they might eventually be accepted as members, they indicated the same attitude as those of members, that the Association is a necessary element in the Ontario flue-cured tobacco industry in that it provides stability in price as well as affording assurance for the marketing of the crop. However, both the documentary and oral evidence indicates that objections have been made at times to various features of the Association or its activities. It does not appear necessary to discuss the nature of those objections in detail as it is evident that except in a few instances they were intended to secure modifications in the administration of the affairs of the Association rather than substantial modification in its structure or activities. In the former class have been various matters raised in connection with details of the administration of acreage allotments or the use of equipment or buildings by non-members or grading problems. As already indicated there have been recurring efforts on the part of members with small acreage allotments to secure larger quotas.

One issue of fundamental importance has been the question of representation of growers and buyers on the Board of Directors of the Association. All active buyers of flue-cured tobacco in Ontario have been represented on the Board and, until 1954, producers were represented on the Board by 15 elected representatives. In February, 1954 a motion was proposed at a meeting of the Board by two buyer representatives that the by-laws be amended to provide for equal representation by buyers and producers. This motion was supported by all buyer representatives and by one producer representative but as the other producer representatives were opposed the motion was defeated. Shortly after the meeting two buyer representatives tendered their resignations from the Board. Another meeting of the Board was held on March 17, 1954, when a resolution was passed providing for the amendment of the by-laws so that for one year the fifteen producer directors would select seven of their number who would have voting power at meetings of the Board and for the next year, the electoral area would be rezoned so that only seven producer directors would be elected. The result was, therefore, that the buyer representatives succeeded in securing the amendment which they desired.

It is implicit from the evidence that growers, both Association members and independents, consider that the buyers occupy a dominant position in the marketing of flue-cured tobacco. This is

not difficult to understand in view of the fact that the seven buying companies comprise all the buyers of flue-cured tobacco in Ontario and for that matter in Canada.

There appears, therefore, to have been a desire on the part of some members of the Association to secure a form of control which would give greater assurance that the interests of the producers would not be subordinated to those of the buyers. Such a desire is implied in the action of a group of growers in the Elgin district, (1) comprising the Elgin District Flue-Cured Tobacco Association, (1) who presented a brief to the Board in 1951 asking the Board to take steps to reorganize the Association as a scheme under the Ontario Farm Products Marketing Act and indicating that if the Association did not act the Elgin group would itself promote the adoption of such a scheme. In the brief presented the Elgin group paid tribute to the activities of the Association over the years. However, they suggested that the operations of the Association in recent years had had the effect of promoting fear among the growers at marketing time, and furthermore that the by-laws, orders, rules and especially the methods of the Board had "in the opinion of many growers, definitely created poor public relations between the 3,000 odd growers (who pay money for the operation of this Board) and the Board themselves." (2)

The Board did not endorse the proposal of the Elgin group and, in fact, when the proposed scheme was subsequently submitted to the growers the Board actively worked against its acceptance. When the vote was taken, 369 growers voted in favour of the proposed scheme, 1,752 voted against it and 900 of those eligible did not vote (Evidence, p. 639). One witness who was Chairman of the Board at the time the marketing scheme was under consideration said that the Board found such a scheme unsuitable because the legislation did not provide for acreage control and because participation of buyers as in the case of the Association would not be feasible in a marketing scheme (Evidence, pp. 203-4). Although control of production is not

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- (1) The Elgin Association was one of the local associations of growers which had elected representatives to the Board of Directors of the Flue-Cured Tobacco Marketing Association of Ontario before the directors of the latter were elected by districts. It had retained its identity for purposes of acquainting its members with the actions of the Association and discussion of improvements in tobacco growing practices.
- (2) Exhibit S. 9.

provided for in Ontario marketing legislation, a marketing agency may regulate the quantity of product to be marketed by each producer. The Farm Products Marketing Act would not prevent buyers being represented on a marketing agency if the growers desired such representation and, of course, it is common practice for grower and buyer representatives to meet in negotiating committees in various marketing schemes.

7. Position of Independent Growers

The figures presented in Table 5 show that since 1941, at least, there have been independent growers of tobacco in Ontario. Inasmuch as there were 329 independent growers shown for that year it may be assumed that there were significant numbers in earlier years for which figures are not available. The persistence of independent growers over the years has several significant features. In the first place it indicates that a number of farmers have not shared the belief of the Association that the production of its members would meet the anticipated demands of the market. Secondly, it indicates that under the conditions prevailing the Association has been prepared to exercise discretion in employing the control measures agreed upon rather than attempt to bar completely outsiders from disposing of their crops.

It is clear from the evidence that although independent growers cannot give any financial measure of the disadvantage of not being a member of the Association there is the definite feeling that lack of membership places the independent grower in an unfavourable position. This is borne out by the apparently universal belief among independents that the Association is a desirable arrangement and the universal desire to secure membership. It is a fact that in the majority of cases independent growers have ultimately been admitted to membership in the Association, although sometimes at considerable interval of years. The disadvantage of non-membership has, therefore, been primarily a matter of lack of assurance and the handicap in financing which lack of assurance might create. These aspects may be described briefly as follows:

- (a) The independent grower has no such assurance as is possessed by a member that if he produces a crop of flue-cured tobacco he will be able to sell it, or if he does sell it he will secure as good a price as those growers who are able to offer their crops first. It will be recalled that under the regulations of the Association buyers are committed to deal with members of the Association first. The opening date for the purchase of non-member crops is set at a later date so as to provide opportunity for exclusive dealing with members' crops. In some recent years the intervening period has been as short as eight days but in 1953 the interval was ten weeks.

In the event that buyers had acquired their full requirements from members' crops non-members might not be able to sell their crops or might have to sell at a lower price because of lack of interest on the part of buyers.

- (b) Lack of membership might retard the rate of development of an independent tobacco farm both because of the owner's unwillingness to make too large a commitment in view of the absence of an assured market and because of his inability for the same reason to secure adequate financing. Although evidence was given by bank managers that the personal position and capabilities of a grower, regardless of membership, were considered when application was made for a loan it is obvious that a farm with a recognized basis of production, confirmed by a specified acreage allotment, would offer less difficulty for credit assessment than a farm without such rights.
- (c) The disadvantage from a financial viewpoint is also evident in the value of the farm of an independent grower, in terms of possible selling price, in comparison with an Association farm. The non-member will point out that because he has no marketing rights the selling value of his farm is lower than a similar farm with acreage allotment. This situation is illustrated by the comments of members, referred to earlier, that admitting independent growers to Association membership in 1956 had substantially increased the value of such farms.

On the other hand, it was pointed out by some witnesses that the absence of membership means that the independent grower is free to plant whatever acreage of tobacco he thinks he can handle. It is of some significance to note that some independent growers testified that they wished to become Association members because they thought it was unfair that the present members should have to bear alone the burden of adjusting acreage to anticipated requirements. Within the history of the operation of the Association the tobacco market has been a rising one, in terms of total demand for tobacco as well as the price. This has meant that there has been an opportunity for an increasing amount of product to be marketed at favourable prices. In the year-to-year operations of the Association aimed at maintaining stability in the industry, members have been obliged to take cuts in acreage in keeping with what the Association thought was necessary to prevent the production of surpluses. Independent growers, however, were able to produce at will on as many acres as they had facilities to handle. The increasing demand for tobacco has also meant that buyers bought about all the tobacco which was of sound quality and which could be used domestically or for export.

In fact the Association in deciding on its acreage allotment always took into consideration the estimated production of tobacco by growers outside its membership. The result, therefore, was that Association members took the cut in production, whereas independent growers were able to expand output and could hope to dispose of their production at a favourable price, even though the opening of their market was delayed until members had opportunity to sell their crops. This paradoxical situation was only tolerable because the production of independent growers represented a very small part of the production of flue-cured tobacco by Association members. When the production of independent growers increased to 10 per cent in 1955 (a year in which members took a 30 per cent reduction in acreage) abandonment of control was threatened unless independent growers accepted membership in the Association and became subject to the same measures of control.⁽¹⁾

(1) See statements of the Chairman of the Board reported in The Delhi News-Record, January 5, 1956.

CHAPTER IX

CONCLUSIONS

1. Public Policy with Respect to the Marketing of Agricultural Products

Agriculture is generally regarded, and properly so, as the industry most fully typifying the concept of individualistic small-scale enterprise. The dominant characteristic of the industry is the large number of widely dispersed small units of production. The typical unit produces a very small proportion of the total product and even when there are operations of considerable local scale their output remains relatively small when measured against the total production. Consequently the production of the individual farm unit has no effect upon total supply or the price prevailing for that product. The primary interest of farmers has been with the production of crops rather than with the marketing of them. This is understandable since their individual output is so small in relation to the total production that they realize how little influence each can have on the market, and quite naturally concentrate their efforts on production. The business organization of the farm also has an effect upon the nature of the supply of products flowing from the farms. The fixed investment in agriculture relative to the current outlay is high. Consequently the farmer tends to maintain his production at a maximum level in his efforts to meet his large overhead costs. This is especially so with respect to the annual outlays in terms of labour and other resources devoted to agricultural production. In various studies this fact has been brought out. Dr. T. W. Schultz has expressed the following conclusion with respect to the United States, where the agricultural organization is similar to that in Canada:

"The quantity of inputs committed to farm production from one year to the next is the most stable economic variable in agriculture. It is doubtful that one could find another major variable in the entire economy that is as steady--come depression followed by recovery, or mobilization, war and peace, or bumper crops, or a run of bad yields."⁽¹⁾

(1) T. W. Schultz, The Economic Organization of Agriculture, McGraw-Hill, New York, 1953, p. 210.

In fact, Schultz has found that the variations in total inputs from year to year in agriculture, measured in terms of the change from the preceding year, averaged about 1 per cent per year from 1910 to 1950.⁽¹⁾ This very slight variation in total inputs is in large measure responsible for the relatively small variation in the year-to-year output of agricultural products. It must be borne in mind, of course, that climatic conditions and other natural factors beyond the control of the farmer do cause variations in total output. The significant feature here is that, barring any special effort through government or other organized controls, farmers tend to maintain a continuous flow of products and do not alter production readily in response to price changes. Admittedly greater variations will appear in year-to-year output for some products than for others but these variations, apart from the effects of the weather, are more the result of previous years' price experiences than anticipated prices. The consequence of the year-to-year maintenance of production by farmers is that the supply of agricultural products is relatively inelastic. Schultz again emphasizes this when he points out:

"... we found no evidence to indicate that the supply schedule, like that of the demand, is subject to large and abrupt shifts as a consequence of decisions taken by farmers."⁽²⁾

The relatively inelastic supply schedule of farm products is matched on the other side by a relatively inelastic demand schedule in terms of price for the general classes of farm products, particularly for those products used for personal consumption, as expansion of per capita consumption is relatively slow.⁽³⁾ While for individual products within a class there may be some shifting in demand in response to price, major changes in the general pattern of demand for agricultural products are not as likely to occur. In the main, therefore, an inelastic supply facing an inelastic demand results in a reduction of gross farm revenue when prices decline. Such a situation may be brought about when, for climatic reasons, or other causes, the supply rises even slightly. This interaction between the two inelastic supply and demand schedules for most agricultural products is mainly responsible for the large fluctuations in farm income. Needless to say such a situation causes considerable uncertainty in the planning of farm production and results in a mal-use of resources in the agricultural sector, apart from the fact that it works hardships on the farmer and his family through the fluctuating income and the resulting insecurity. These features of agricultural production have long been recognized by farmers. They have observed that in the case of most manufactured products, output is much more responsive to

(1) *ibid.*, p. 210.

(2) *ibid.*, p. 348.

(3) Consumer demand for tobacco is generally classed in economic studies as highly inelastic, more so than for most agricultural products. See Organization of the Loose-Leaf Tobacco Auction Market, p. 11.

changes in demand and in price. They recognized also that no individual farmer could do anything by himself to correct the situation and that only through some form of organization could farmers hope to secure greater control over the marketing of their crops. The most important of such farm organizations have been the agricultural co-operatives. It was through the co-operatives that farmers attempted to equalize their bargaining position in marketing vis-a-vis the persons to whom they sold. While some co-operatives have had a considerable degree of success in providing a more effective marketing agency for producers, they have not been completely successful in dealing with the over-all question of supply in relation to market demand. Although farmers have for many years recognized the importance, or at least the significance, of production control in relation to their total income and as a factor influencing prices for their products, they lacked the means to have such control made effective. The reasons for this difficulty stem from the very nature of the farm organization itself. Farmers, scattered widely, intent on production primarily, and concerned about meeting their overhead and current operating expenses, are always aiming at maximum output. Even though they are organized into a marketing co-operative the individual farmer is still primarily concerned with securing the largest output from his own farm. Furthermore, the farmer will respond in some degree to improved prices and if his co-operative is successful in this direction the farmer will naturally tend to increase his output, either by increasing acreages devoted to the crop or by intensifying the methods of production, both of which will tend to raise total output.

It should be noted too, that under a co-operative setup, which is a voluntary organization, some farmers may not wish to participate, and consequently the influence that such an association will have on the market will be affected by the number of independent producers.

The experience of Canadian tobacco producers with the marketing of their product has served to make them strongly conscious of the influence of the factors just described. In the period preceding the formation of the Association prices fluctuated greatly from season to season, depending upon variations in production as well as in demand. While unprocessed raw tobacco is a perishable product, once it has been processed it is storable for relatively long periods. Processors customarily accumulate stocks and keep on hand more than the amount required to supply their yearly needs. Thus stocks may accumulate from a series of high production seasons to such an extent that buyers may become rather indifferent to the supplies coming forward from a new crop. On the other hand, producers must sell current crops as they are obtained because of the need for cash to meet expenses incurred in the production of the crop as well as their own living expenses, both of which, in a great many cases, have been financed by borrowing. The perishable nature of flue-cured tobacco

in the hands of the grower also impels him to find a buyer for his crop as soon as possible. The individual grower is thus placed in a weak position when it comes to bargaining for price, especially as they are a large number of small producers dealing with a small number of large buyers.

In past years, in an effort to make their position less unequal to that of the buyers and to bring some order into the marketing of their crop, tobacco growers organized into voluntary producer co-operative associations. Such organizations do not appear to have become significant factors in the Ontario flue-cured tobacco industry until 1932-33 when growers suffered from the drastic declines in the prices of raw tobacco during the early years of the depression. Although the co-operatives brought about some improvement in conditions, including the provision of grading services for members' crops, their own resources were not sufficient to deal with the surplus which hung over the market and financial assistance was obtained from the Ontario Government to enable the unsold balance to be packed and stored for later sale. On the formation of the Association the individual co-operatives appear to have lost their importance and ceased to play any active part in marketing except for one organization, the Ontario Tobacco Sales Co-operative Limited, which assisted in handling a surplus which arose in 1939, but thereafter again became inactive and was dissolved in 1954.

In Quebec, a co-operative of flue-cured tobacco growers, La Cooperative des Tabacs Laurentiens, operated from 1938 to 1954. This co-operative owned a tobacco processing plant and storage warehouse so that the tobacco crop could be sold either in raw or processed state. While usually the entire crop was sold in the raw state, on occasion a portion was processed for later sale. One of the factors which it has been suggested led to the dissolution of this co-operative was the unwillingness of members to provide sufficient working capital to enable the organization to function effectively. Other difficulties faced by La Cooperative des Tabacs Laurentiens are referred to in the following comment in The Canadian Tobacco Grower, July, 1956:

"From the beginning, the co-operative had been confronted with the difficulty imposed by the traditional method of marketing tobacco in which the individual grower made his own contract with the buyer. Then too, during the war methods of grading and packing were changed and this imposed a further strain upon the co-operative arrangement."

The inability of agricultural co-operatives to meet, in a fashion considered adequate, the needs of farmers, led to the demand for and passage of special legislation for the control of the marketing of farm crops. While such legislation takes different forms in

different countries it is the case that governments throughout the world have been active in agricultural policy and particularly so since the depression of the 1930's.

Legislation in Canada has taken the general form of providing for the setting up of statutory boards with authority, under specified conditions, to control the marketing of designated crops. As was noted earlier in considering the formation of the Association, early federal legislation of this kind was The Natural Products Marketing Act, 1934, which was held by the Supreme Court of Canada in June, 1936, and subsequently by the Judicial Committee of the Privy Council, to be ultra vires of the Parliament of Canada. It has also been noted that the origin of the marketing arrangements carried out by the Association is to be found in the Scheme to Regulate the Marketing of Flue-Cured Tobacco which was authorized under the Act of 1934 in October of that year. The Association thus came into existence to meet the situation which was created when the statutory marketing arrangements ceased to have effect, because of the invalidity of the legislation.

Shortly after the judgment of the Judicial Committee of the Privy Council a number of provincial legislatures, including that of Ontario, enacted legislation to permit the same form of control of agricultural marketing as had been provided by the federal Act. In Ontario, The Farm Products Control Act was assented to in March, 1937 but the Association which had been incorporated in July, 1936 and had already established its marketing arrangements did not seek to have a marketing scheme for flue-cured tobacco set up under the provincial statute.

In 1939, the Parliament of Canada passed an act to assist and encourage co-operative marketing of agricultural products (Agricultural Products Co-operative Marketing Act, 1939, c. 28, s. 1) which provided for agreements with co-operative associations to guarantee the provision of funds sufficient to meet initial payments for crops which might be made to members. Section 3(6) of this Act provides:

"(6) No agreement shall be made under this section unless the co-operative plan applies to such a proportion of the primary producers within a certain geographical area or to such a proportion of an agricultural product produced in such area that the Minister is of opinion that the marketing of the aforesaid agricultural product under the co-operative plan will benefit the primary producers."

Toward the end of World War II, Parliament enacted the Agricultural Prices Support Act, 1944-45. This Act, which was entitled "An Act for the Support of the Prices of Agricultural Products during the transition from War to Peace" has continued in force.

Its general purpose is indicated by the following:

"9(2) In prescribing prices under paragraphs (a) and (c) of subsection one of this section, the Board shall endeavour to ensure adequate and stable returns for agriculture by promoting orderly adjustment from war to peace conditions and shall endeavour to secure a fair relationship between the returns from agriculture and those from other occupations."

Then in 1949 the Agricultural Products Marketing Act was enacted which has the following preamble:

"Whereas it is desirable to improve the methods and practices of marketing agricultural products of Canada; and whereas the legislatures of several of the provinces have enacted legislation respecting the marketing of agricultural products locally within the province; and whereas it is desirable to co-operate with the provinces and to enact a measure respecting the marketing of agricultural products in interprovincial and export trade:"

The authority which may be granted under this Act is indicated by the following provision:

"2(1) The Governor in Council may by order grant authority to any board or agency authorized under the law of any province to exercise powers of regulation in relation to the marketing of any agricultural product locally within the province, to regulate the marketing of such agricultural product outside the province in interprovincial and export trade and for such purposes to exercise all or any powers like the powers exercisable by such board or agency in relation to the marketing of such agricultural product locally within the province."

It is clear from the foregoing brief survey of marketing legislation that public policy is now established to permit control of the marketing of agricultural products under statutory authority for the purpose, as stated in the Agricultural Prices Support Act, to "endeavour to ensure adequate and stable returns for agriculture."

2. The Outlook for Flue-Cured Tobacco

The outlook for the production of flue-cured tobacco, from the viewpoint of future markets, appears at the present time to be a promising one. Unless evidence of a medical nature proving tobacco to be detrimental to health is produced and is accepted as conclusive by tobacco users the prospects are that tobacco consumption in Canada will continue to increase as it has during the past twenty years. This

appears likely not only with respect to Canada but also in other countries where per capita consumption is, for example, well below the level which it has reached in the United States. In the case of Canada the increase in consumption, as has already been indicated, seems to be due not only to the increase in population but also to an increasing proportion of the population becoming smokers and to an increase in usage among smokers as the income of the individual increases. The same factors are likely to be operative in other countries.

While world figures for tobacco consumption are not sufficiently detailed to permit a pattern of use to be made with respect to different manufactured products it appears evident that the use of tobacco in cigarettes is increasing most rapidly. It will be seen from Table 31 that the world production of all tobacco had increased about 25 per cent by 1955 compared with the pre-war level. On the other hand, the production of flue-cured tobacco, which is used primarily in cigarettes, more than doubled in the same period. This has been the result of an increase in acreage as well as a rise in the yield per acre.

Table 31 - Tobacco, Flue-Cured and All Types: Production, World, Canada, United States and Southern Rhodesia, average 1935-1939, 1947-1951 and annually 1952-1955

Period	World Production		Canada		U. S. A.		S. Rhodesia	
	Flue-Cured	All Tobacco	Flue-Cured	All Tobacco	Flue-Cured	All Tobacco	Flue-Cured	All Tobacco
	million lb.		million lb.		million lb.		million lb.	
1935-39	1,261.7	6,530.2	54.6	76.6	863.6	1,460.1	24.6	26.1
1947-51	2,024.0	7,214.7	111.6	129.4	1,246.2	2,082.7	82.4	84.7
1952	2,258.7	7,229.8	132.0	139.7	1,365.3	2,254.9	99.0	99.8
1953	2,306.7	7,465.6	132.3	139.2	1,272.2	2,057.2	105.1	105.6
1954	2,502.9	7,953.3	173.2	184.8	1,314.4	2,243.8	120.9	121.6
1955	2,716.0	8,108.8	121.6	135.5	1,504.1	2,265.1	120.6	121.0

Note: The figures for 1954 and 1955 are preliminary in some instances.

Source: United States Department of Agriculture, Agricultural Marketing Service, Annual Report on Tobacco Statistics, 1955.

One significant point for the Canadian producer in the anticipated continued expansion in the use of tobacco is the fact that the countries to which we have been exporting tobacco have not been substantial producers of tobacco and probably will not become substantial producers. These same countries are also relatively heavy consumers of tobacco products, especially cigarettes. At the same time, these importing countries seek their supplies in the markets of the world and Canada is a relatively small supplier in terms of world trade. The evidence indicates that Canadian flue-cured tobacco

is a quality product and there is good prospect that if export markets are more aggressively sought Canadian producers will find expanding outlets abroad for flue-cured tobacco.

The position which Canada has held so far in world trade in tobacco of all types is indicated in Table 32. In the period 1934-38, exports of tobacco from Canada formed only about 1 per cent of world trade. In the immediate post-war period Canada's share was a little less than 2 per cent, while exports from Southern Rhodesia amounted to 6.4 per cent of total world exports. In 1952 and 1955, following large crops in the preceding year in each case, exports from Canada rose to more than 3 per cent of the world total while exports from Southern Rhodesia increased to more than 7 per cent in 1952 and 1954.

Table 32 - Tobacco, All Types: Total World Exports and Exports from the United States, Canada and Southern Rhodesia, average 1934-38, 1948-50 and annually 1951-55.

Period	World Quantity	United States		Canada		S. Rhodesia	
		Quan- tity	% of World	Quan- tity	% of World	Quan- tity	% of World
		----- '000 metric tons -----					
1934-38	540	198.4	36.7	5.1	0.9	8.9	1.6
1948-50	530	212.0	40.0	8.9	1.7	34.0	6.4
1951	620	236.8	38.2	13.4	2.1	30.6	4.9
1952	550	179.2	32.6	17.5	3.2	40.1	7.3
1953	610	234.4	38.4	12.9	2.1	36.6	6.0
1954	600	206.0	34.3	14.0	2.3	45.3	7.6
1955	636*	244.0	38.4	22.0	3.5	42.2**	6.6

* Estimated on basis of data for leading exporting countries.

** Estimated from figures for Rhodesia and Nyasaland.

Sources: F.A.O. Yearbook of Food and Agricultural Statistics, Vol. VIII, Part 2 1954 Table 64 and F.A.O. Monthly Bulletin of Agricultural Economics and Statistics, March and May, 1956. The 1954 exports for Southern Rhodesia are converted from poundage figures in United States Department of Agriculture, Agricultural Marketing Service, Annual Report on Tobacco Statistics, 1955.

Optimism about expansion of markets for flue-cured tobacco is indicated in a report of a speech by F. K. Ashbaugh, Vice-Chairman of the Board of the Association, which contained the following:

"[Mr. Ashbaugh] forecast that within three years time members of the unique association would be allowed to grow their full base acreage each year."⁽¹⁾

It has already been pointed out that tobacco manufacturers once having established a product which finds favour with the consumer are reluctant to make use of tobacco from other sources which, although of high quality, may introduce subtle differences which would require adaptation on the part of the consumer before receiving the same wide acceptance. This means that enlargement of the market for Canadian flue-cured tobacco in areas where it has formed only a small proportion of the supply will require sustained effort and the assurance of continuing supplies. On the other hand, once Canadian tobacco has established a good foothold in a market the factors which may have slowed its initial wide acceptance can be counted on to maintain demand if quality is kept high and if the price is relatively favourable. These considerations lead, therefore, to questions of the potentialities of flue-cured tobacco production in Canada and improvements in techniques of production.

According to the evidence of Dr. N. A. MacRae, Chief of the Tobacco Division of the Experimental Farms Service of the Department of Agriculture, Ottawa, the existing tobacco farms in Ontario could produce, with their present equipment, a crop of about 200 million pounds. This may be compared with the crop of 173, 569, 000 pounds of tobacco of all types produced in Ontario in 1954, which was the largest crop in the history of the province. Dr. MacRae said further that although survey work of tobacco lands in Ontario had not been completed, he was inclined to feel "that we could, with very little effort and within a very few years reach a total production of 300-million pounds".⁽²⁾ Even the larger limit of tobacco production estimated by Dr. MacRae may be far below the ultimate potential of Canada to produce tobacco. It may be found that new areas in other parts of Ontario and in other provinces are capable of producing tobacco but, perhaps of greater importance will be the extent to which technologies of tobacco production may be improved. It is clear that if the yields of all tobacco farmers were brought closer to the best results now obtained, a substantial gain in production would result and perhaps Dr. MacRae had this principally in mind in giving his estimate of the production which could be obtained from existing farms.

It has been mentioned earlier that the establishment of a flue-cured tobacco farm requires substantial capital investment and

(1) The Canadian Tobacco Grower, July, 1956, p. 22.

(2) Hearing, pp. 110-11.

also that annual operations, in most cases, require loan financing on a considerable scale until the crop is sold. These factors, in themselves, are likely to result in a steady rather than a precipitate expansion in tobacco farms. Added to these stabilizing influences is the fact that the successful growing of tobacco requires considerable skill which is the result of experience over a period of time. To a considerable extent, therefore, additional tobacco acreage is brought into production by established farmers or by persons who have gained experience while renting established farms.

It is possible, also, that only a beginning has been made in the development of labour-saving machinery and growing procedures which will result in cost savings in tobacco production and thus put the Canadian industry in a more favourable price position to supply world markets. In other fields of agricultural production, such as cotton and sugar beets, which also involved large labour elements, great progress is being made in the use of labour-saving machinery and, in the case of sugar beets, in the development of seed strains which reduce labour-consuming operations, such as thinning. Developments of this kind in tobacco production might possibly alter the size of the most economical farm and could be impeded if the size of farm acreage for tobacco was held too rigid.

Although the general situation for flue-cured tobacco appears to be one of growing demand which will provide opportunities for greater production, in the short run situations of temporary surplus may develop which could result in price fluctuations which would seriously reduce the incomes of growers and disturb the general economy of the communities in which tobacco growing occupies such a large place. These factors of risk and uncertainty which could be produced by a surplus are those most feared by growers and make both Association and independent producers so anxious that an organization be maintained to ensure against such disturbances. There can be no question that public policy endorses collective bargaining by producers for the disposal of their product and it remains to consider the nature of that collective bargaining in the circumstances of the flue-cured tobacco industry in Ontario.

3. Opinion as to Nature of the Association

The Association adapted, on its formation, a marketing arrangement which had been authorized under the provisions of The Natural Products Marketing Act, 1934. The marketing scheme had provided for the determination of the basic price for each crop by a committee consisting of an equal number of representatives of both growers and buyers. It will be recalled that this has remained one of the main features in the organization of the Association. In addition, however, the Association included control of acreage as a main

feature of its operation. This has been accompanied by close control over admission of new members.

It appears to be the case that starting off with the background of a statutory arrangement and embracing such a very large majority of the producers of flue-cured tobacco in Ontario, the Association considered that it was in a position to act as the regulating agency for the entire industry. This appears to be the explanation for the adoption of the series of regulations which, in effect, could prevent any non-member from selling his crop and which establish such close control over the production and marketing activities of members. It may also have been the case that the Association was influenced in its general policy of acreage control by the fact that acreage allotments had been included prior to 1936 in the agricultural marketing schemes applying to the production of flue-cured tobacco in the United States.

Although we have found that the Association has not directly controlled the production of tobacco by non-members and has not prevented non-members from selling their crops it is clear that the arrangements of the Association are of such a nature that they can be considered as contemplating the actual closing of the market to all but members of the Association. The fact that such power has not been applied and, it was argued on behalf of the Association, would not be applied does not make it desirable, in our opinion, that control of this kind should be held by private arrangement which has not been approved by any public authority.

We do not think that the exclusionary features of the Association can be said to be without real effect. Evidence of such effect is found in the relative values of member and non-member farms and in the evident anxiety of independent producers to become members of the Association at the earliest opportunity. While it is the case that in most recent years the opening of the market for non-members in Ontario has not been long delayed after the opening of the market for members, the independent grower can have no assurance that this will always be the case and the fact that in one recent year (1953) the opening date for independents was ten weeks later than for members emphasizes this point. It also appears to be the case that the bulk of the tobacco crop is usually sold within the first few days of the opening of the market so that time may be a very important factor in terms of the satisfaction of buyers' requirements.

We also believe that the effect of the Association arrangements in preventing any sharing of facilities or services with non-members may be to increase unnecessarily the amount of investment in the tobacco industry and interfere with the most efficient use of available resources. The Association, of course, has had in mind the prevention of unmanageable surpluses but other means may be found which would avoid this result without having a detrimental effect on

efficiency. We are also concerned by the latest measure⁽¹⁾ adopted by the Association on February 17, 1956 which prohibits in more stringent fashion than ever before any member from having a direct or indirect interest in any land devoted to the production of flue-cured tobacco other than land for which an allotment has been given by the Association. This by-law practically prevents any member from acquiring any additional land for tobacco production, the only exception being land acquired from another member, which land already enjoys acreage "rights". It appears that such a measure could have the effect of impeding the most efficient farmers in assisting in the development of new tobacco farms. It may be said that such restrictions are approved in a democratic way by a majority of the members and that members accept them voluntarily in that a grower is not bound to continue in the organization. The first is clearly the case but in view of the position which the Association occupies in the marketing of flue-cured tobacco, a grower member may feel that he has no real alternative to remaining in the Association and accepting its restrictions.

While recognizing the advantages which growers of flue-cured tobacco have found in the Association and the benefits which have accrued to the communities in the tobacco-growing areas from a prosperous and expanding industry, we consider that there are serious disadvantages in the present system which lead us to the conclusion that changes should be made. These disadvantages may be recapitulated as follows:

1. Although at the present time practically all flue-cured tobacco growers in Ontario are members of the Association this has not always been the case and may not be the case again. The Association arrangements establish a preferred position for members in the sale of their crops and exclude non-members from the market except on terms fixed by the Association. While we do not find it objectionable that a co-operative association of producers should be able to bargain with buyers as to the terms of purchase for the crops of its members we do not believe that such arrangements should establish conditions which make entrance to the market on the part of other producers dependent upon the will of the Association.
2. The rules of the Association which forbid dealings between member and non-member producers appear to work against the most efficient use of resources in the industry and to hinder the most effective development of new farms to the disadvantage of new producers and also of established growers with unused capacity in buildings or equipment.

(1) By-law 59.

3. The rigid manner in which individual acreage allotments once established have been kept without change limits the opportunity for the organization of farm operations so as to secure the most economical utilization of resources and may hinder the adaptation of farm units to the optimum size as technology of production changes.
4. The determination of annual crop acreage solely on the basis of the avoidance of surpluses, which appears to be the present objective, may, on the one hand, tend to too great conservatism in the allocation for members and, on the other, encourage a more rapid than necessary expansion outside the Association. The result is either the under-utilization of existing resources or their unnecessary duplication.
5. The conservatism which may result from the present system of acreage allotment and control may be expected to affect most directly the quantity of tobacco available for export and to lead to a slower development of the industry in Ontario than might otherwise occur.
6. The preferred selling positions established by the regulations of the Association and the resulting less advantageous positions in which independent growers have been placed have tended to create values for farms possessing "rights" which make difficult the appraisal of tobacco farms in terms of actual productive capacity. Such a basis of valuation, resting upon the power to exclude non-members from the market, is not considered by the Commission as a healthy condition for the long-run development of an industry occupying an important position in the agricultural economy.

These disadvantages flow, in the main, from the degree of control which members of the Association have considered necessary to establish over the production and marketing of flue-cured tobacco in Ontario. If, in the present stage of the development of the industry, it was thought by the growers that continued prosperity in the industry could be preserved by purely co-operative action changes might be made in the Association arrangements which would largely avoid the disadvantages outlined above. In other words, if the growers believed that a co-operative association, which was concerned with the marketing of its members' crops and which involved no restrictions on growers outside the organization and no serious restraints on the most economical organization of productive units, could effectively deal with current problems the disadvantages we have described could be avoided by appropriate changes in the rules and regulations of the present Association.

It appears to be the general opinion among flue-cured tobacco growers in Ontario, both members and non-members, that the industry can be maintained in a prosperous condition only if rigorous controls are in effect. The form of collective marketing agency which is to be used for flue-cured tobacco in Ontario is, of course, a matter for the growers themselves to decide under the conditions established by public policy. If it is considered necessary that all producers and buyers should be regulated, as is clearly contemplated by the present arrangements of the Association, then the only course would appear to be for the growers to secure governmental authorization for the appropriate control measures. We do not believe that we should attempt to define the particular form of marketing arrangement which might be employed because this will require careful study by the growers themselves with the assistance of those government agencies which have been established for the special purpose of assisting producers to market their crops to the best advantage. If it is considered necessary by the growers to proceed in this direction we think that the Association should approach the Farm Products Marketing Board of Ontario so that study may be made of the form of statutory marketing agency which would be best adapted to the needs of the flue-cured tobacco industry. In view of the fact that a significant, though small, amount of flue-cured tobacco is produced in Quebec and in view of the importance which should be given to the development of larger export markets we would further recommend that the marketing divisions of the Quebec and Federal Departments of Agriculture be invited to take part in the study of the most appropriate form of marketing arrangement.

In so recommending, we are not implying that the statutory marketing agency should necessarily supersede completely the existing Association. It is evident that in its long history the Association has played a very beneficial role in furthering the interests of tobacco growers in Ontario. That it may, perhaps, have been too conservative at times is not unexpected when the thousands of farmers for whom protection was being sought are considered. If it now appears that controls which would permit greater flexibility in the development of the industry are needed in the general public interest, which embraces the long-run progress of the industry, this does not mean that there is no place for a co-operative association. If the large majority of growers believe, as they appear to do, that the development of the industry requires some degree of acreage control there seems to be no reason why this should not be sought by voluntary action without involving the system of private regulation which has been used up to now. There is the further point that the Association has considered that the successful operation of its policy of acreage control required the exclusion of new producers from membership for considerable periods. Under a system of statutory regulation there would be no reason to exclude properly qualified producers from membership in a co-operative association and membership of growers might be even more comprehensive than it

has been in the past. This could mean that voluntary action would be more effective in maintaining stability in the industry than the measures taken in the past. That this would not be a vain expectation is supported by the fact that voluntary acreage control had a considerable measure of success in the period immediately preceding the formation of the Association and further by the evident desire of independent growers to participate whole-heartedly in the production programme of the Association.

Other advantages might be secured by the maintenance of a co-operative association of growers in conjunction with a marketing scheme under provincial legislation. A co-operative organization could provide services for its members which it would not be feasible for the grower to secure individually. The development of an adequate system of grading, which would seem to warrant close attention, might be sponsored with appropriate governmental assistance and the co-operative organization could re-establish a system of grading individual members' crops. Information and guidance as to the quality of land and methods of production and handling could also be furnished so as to improve yields and the quality of the product. If it becomes necessary to provide storage or processing facilities in order to assist the more regular disposal of the crop the co-operative organization could be called on to provide these and other services which might be needed. Assistance in this direction might be secured by a co-operative organization under the Federal Agricultural Products Co-operative Marketing Act, to which reference has already been made, or under the Ontario Co-operative Marketing Loans Act.

One further point is mentioned, not in any way as a suggestion but as a matter which might be considered in the event that a statutory marketing scheme is set up and as experience is gained in its operation. This particular point is the relationship of buying companies to tobacco manufacturers not only in this country but in other countries as well. It has been shown that tobacco buyers in Canada are very few in number and some of the larger are closely affiliated with tobacco manufacturers. It is also the case that a few of the latter account for a very large part of tobacco manufacturing in Canada and the United Kingdom. It seems unavoidable that the interest of such affiliated buying companies would be primarily in meeting the requirements of the manufacturing companies. The fact that such manufacturing companies take such a large part of the Canadian production of flue-cured tobacco means that the scope for independent buying companies is very much limited. The question thus arises whether the position of the grower with respect to the domestic market and with respect to export development would be improved if only independent buying companies were interposed between grower and manufacturer. Such independent buyers would have as their prime interest the disposal of the entire crop of flue-cured tobacco of all grades as their income would necessarily depend upon handling the largest possible volume of trade. They would also be as much

interested in finding export markets as in meeting the requirements of domestic manufacturers. There would be no question, in the event of the entire crop being handled by independent buyers, but that manufacturers would continue to be able to purchase the particular grades of tobacco which they required for their manufacturing operations.

(Sgd.) C. R. Smith

Chairman

(Sgd.) A. S. Whiteley

Member

(Sgd.) Guy Roberge

Member

(Subject to the note below)

Ottawa,

November 1, 1956.

Note by Mr. Guy Roberge:

The conclusion of the Statement of Evidence is that the Association by reason of the effects of the practices and arrangements disclosed has constituted an arrangement for restraining and injuring trade and commerce contrary to the public interest.

The arrangement has certainly restricted and lessened competition in the production, purchase and sale of flue-cured tobacco, but in so doing it has followed quite closely the public policy which is becoming more and more the pattern with respect to the marketing of agricultural products.

Errors in judgment may have been made, - one such error, viz., the delay of ten weeks in opening the 1953 freelance market, was admitted by Mr. J. J. Robinette, Q.C., as counsel to the Association. Some disadvantages to individual growers flowed from the scheme. Corrections ought to be expected and they should be possible within the present framework.

On balance these disadvantages appear to be of a minor character and importance when compared with the overall benefit derived from the activities of the Association.

Whether different behaviour on the part of the Association would have yielded better results for the public is a question to which, on the one hand, I cannot give a positive answer, while on the other hand the review submitted by this Commission to the Minister of Justice leads me to the conclusion that the public has not suffered.

Is the present arrangement likely to be detrimental in the future as a consequence of what may be termed its conservatism? I am unable to answer this question conclusively. I leave it to those who are directly responsible for the agricultural and industrial development of Canada and for its export trade to give advice thereon and formulate policies.

Certain features referred to in Section 3 of Chapter IX appear to be discriminatory. The Association should aim at removing these, bearing in mind that most probably they would not exist if at present the operations were conducted under the Ontario Farm Products Marketing Act.

By their own co-operative efforts, the growers of flue-cured tobacco, without expense to the taxpayers, have achieved the same results that they would have sought to achieve and most probably would have achieved under a government supervised scheme.

I wish to offer no suggestion as to a possible change to a public or mixed public and private system in lieu of the present set-up.

Further, in view of the foregoing comments and of the present marketing legislation, I do not think it necessary to discuss the matter dealt with in the last paragraph of the report.

(Sgd.) Guy Roberge

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